

# Serbia

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RISK & COMPLIANCE REPORT

DATE: January 2017

**Executive Summary - Serbia**

<b>Sanctions:</b>	None
<b>FAFT list of AML Deficient Countries</b>	No
<b>Higher Risk Areas:</b>	Not on EU White list equivalent jurisdictions
<b>Medium Risk Areas:</b>	<p>Compliance with FATF 40 + 9 Recommendations</p> <p>US Dept of State Money Laundering assessment</p> <p>Corruption Index (Transparency International &amp; W.G.I.)</p> <p>World Governance Indicators (Average Score)</p> <p>Failed States Index (Political Issues)(Average Score)</p>
<p><b>Major Investment Areas:</b></p> <p><b>Agriculture - products:</b></p> <p>wheat, maize, sugar beets, sunflower, raspberries; beef, pork, milk</p> <p><b>Industries:</b></p> <p>base metals, furniture, food processing, machinery, chemicals, sugar, tires, clothes, pharmaceuticals</p> <p><b>Exports - commodities:</b></p> <p>iron and steel, rubber, clothes, wheat, fruit and vegetables, nonferrous metals, electric appliances, metal products, weapons and ammunition, automobiles</p>	
<p><b>Investment Restrictions:</b></p> <p>Serbia is open to foreign direct investment (FDI) and attracting FDI is a priority for the Government of Serbia.</p> <p>Serbia has enacted specific legislation outlining guarantees and safeguards for foreign investors. The current Law on Foreign Investments establishes the framework for investment in Serbia. The law eliminates previous investment restrictions, extends national treatment to foreign investors, allows the transfer/repatriation of profits and dividends, provides guarantees against expropriation, and allows customs duty waivers for equipment imported as capital-in-kind.</p>	

Foreign investors and entities may not, however, establish enterprises in the defense sector or areas legally designated as restricted zones, although they may acquire minority rights in such investments, subject to Ministry of Defense approval.

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## Section 1 - Background

The Kingdom of Serbs, Croats, and Slovenes was formed in 1918; its name was changed to Yugoslavia in 1929. Various paramilitary bands resisted Nazi Germany's occupation and division of Yugoslavia from 1941 to 1945, but fought each other and ethnic opponents as much as the invaders. The military and political movement headed by Josip "TITO" Broz (Partisans) took full control of Yugoslavia when German and Croatian separatist forces were defeated in 1945. Although communist, TITO's new government and his successors (he died in 1980) managed to steer their own path between the Warsaw Pact nations and the West for the next four and a half decades. In 1989, Slobodan MILOSEVIC became president of the Republic of Serbia and his ultranationalist calls for Serbian domination led to the violent breakup of Yugoslavia along ethnic lines. In 1991, Croatia, Slovenia, and Macedonia declared independence, followed by Bosnia in 1992. The remaining republics of Serbia and Montenegro declared a new Federal Republic of Yugoslavia (FRY) in April 1992 and under MILOSEVIC's leadership, Serbia led various military campaigns to unite ethnic Serbs in neighboring republics into a "Greater Serbia." These actions were ultimately unsuccessful and led to the signing of the Dayton Peace Accords in 1995. MILOSEVIC retained control over Serbia and eventually became president of the FRY in 1997. In 1998, an ethnic Albanian insurgency in the formerly autonomous Serbian province of Kosovo provoked a Serbian counterinsurgency campaign that resulted in massacres and massive expulsions of ethnic Albanians living in Kosovo. The MILOSEVIC government's rejection of a proposed international settlement led to NATO's bombing of Serbia in the spring of 1999, to the withdrawal of Serbian military and police forces from Kosovo in June 1999, and to the stationing of a NATO-led force in Kosovo to provide a safe and secure environment for the region's ethnic communities. FRY elections in late 2000 led to the ouster of MILOSEVIC and the installation of democratic government. In 2003, the FRY became Serbia and Montenegro, a loose federation of the two republics. Widespread violence predominantly targeting ethnic Serbs in Kosovo in March 2004 caused the international community to open negotiations on the future status of Kosovo in January 2006. In June 2006, Montenegro seceded from the federation and declared itself an independent nation. Serbia subsequently gave notice that it was the successor state to the union of Serbia and Montenegro. In February 2008, after nearly two years of inconclusive negotiations, the UN-administered province of Kosovo declared itself independent of Serbia - an action Serbia refuses to recognize. At Serbia's request, the UN General Assembly (UNGA) in October 2008 sought an advisory opinion from the International Court of Justice (ICJ) on whether Kosovo's unilateral declaration of independence was in accordance with international law. In a ruling considered unfavorable to Serbia, the ICJ issued an advisory opinion in July 2010 stating that international law did not prohibit declarations of independence. In late 2010, Serbia agreed to an EU-drafted UNGA Resolution acknowledging the ICJ's decision and calling for a new round of talks between Serbia and Kosovo, this time on practical issues rather than Kosovo's status. The EU-moderated Belgrade-Pristina dialogue began in March 2011 and was raised to the level of prime ministers in October 2012.



## Section 2 - Anti – Money Laundering / Terrorist Financing

### FATF status

Serbia is not on the FATF List of Countries that have been identified as having strategic AML deficiencies

### Compliance with FATF Recommendations

The last Mutual Evaluation Report relating to the implementation of anti-money laundering and counter-terrorist financing standards in Serbia was undertaken by the Financial Action Task Force (FATF) in 2016. According to that Evaluation, Serbia was deemed Compliant for 3 and Largely Compliant for 20 of the FATF 40 Recommendations.

#### Key Findings

Serbia has made efforts to improve its AML/CFT legal and institutional framework since the previous evaluation. Deficiencies remain with respect to some important FATF Recommendations, particularly those dealing with financing of terrorism (FT) and proliferation financing (PF) targeted financial sanctions (TFS), non-profit organisations (NPOs), financial sanctions, supervision of certain designated non-financial businesses and professions (DNFBPs), politically exposed persons (PEPs), wire transfers and high-risk jurisdictions.

Serbia faces a range of significant money laundering (ML) threats and vulnerabilities. Organised criminal groups involved in the smuggling and trafficking of narcotic drugs and trafficking of human beings pose a major ML threat in Serbia. Tax evasion and corruption offences are considered to generate substantial criminal proceeds. The purchase of real estate, valuable moveable property and investment in securities is a preferred laundering method. The misuse of domestic and foreign (offshore) legal persons together with multiple use of wire transfers are common money laundering typologies. The country's exposure to cross-border illicit flows is significant.

There are various factors pointing to an elevated degree of FT risk in Serbia, particularly in relation to the non-profit sector and informal money remittances. Terrorism risks originate from separatist and/or extremist groups situated in the region and in certain parts of the southern regions of Serbia. Countries and territories in the region have recently experienced an increase in Islamic radicalisation and nationals joining the so-called Islamic State (ISIS) as foreign fighters in Syria and Iraq.

Serbia understands some of its ML/FT risks. It was the first country in MONEYVAL to have conducted a full scope ML national risk assessment (NRA), for which it is to be commended. Following the completion of the ML NRA in 2013, and a separate FT NRA in 2014, the Serbian authorities' understanding of risks continued to evolve, taking into account new and developing threats and vulnerabilities. Nevertheless, further efforts should be made to ensure that all the risks, threats and vulnerabilities faced by the country are properly understood.

The Administration for the Prevention of ML (APML) plays a central role in generating financial intelligence. The analysis products generated by the APML are of good quality and have the potential of supporting the operational needs of law enforcement agencies (LEAs). However,

some information which is necessary for analytical purposes is either not easily retrievable or not made available to the APML in a timely manner. The dissemination procedure, which involves discussion between the APML and the Prosecutor's Office, may impact negatively on the APML's ability to develop and disseminate cases independently from the operational priorities of law enforcement authorities. LEAs use financial intelligence in the pre-investigative phase of ML investigations, parallel financial investigations, investigations of associated predicate offences and FT. Although financial intelligence was used to generate ML investigations, it appears that this is rare due to difficulties by law enforcement authorities in undertaking and conducting investigations for money laundering in the absence of specific indication of the predicate crime.

The Serbian authorities have not been effective in investigating ML offences and prosecuting and convicting offenders. The results do not reflect the risks faced by the country. The majority of ML convictions were for self-laundering connected to a domestic predicate offence. Very few persons were convicted for third party laundering, despite the existence of organised criminality. There have been no foreign predicate convictions. The limited number of outgoing money laundering-related mutual legal assistance (MLA) requests suggests that the Serbian authorities are not active in this area despite the threat from foreign predicate crime. No stand-alone ML convictions have been achieved. There is still reluctance to pursue ML cases until a conviction for the predicate crime has been achieved.

Confiscation of proceeds of crime is a high policy objective in a number of strategic documents and legislation. In practice though, and notwithstanding some significant results achieved, the totality of the results do not necessarily reflect the risks and the number of predicate offence convictions. The structure for the management of seized and confiscated assets is effective and commendable. Whilst there is a system of control for cross border movement of cash/bearer negotiable instruments (BNIs) in place, it does not appear to sufficiently address the ML and in particular FT risks associated with such movement.

There have been no convictions for FT and only one prosecution. More attention should be directed towards potential FT activity linked to insufficient financial transparency and inadequate control of funds raised by NPOs, as well as to cash movements across the border through alternative remittance systems and money remitters. FT investigations do not appear to be carried out systematically in the context of terrorism investigations and there are difficulties in securing sufficient evidence to bring the investigations forward. However, the authorities broadly understand the risk posed by FT and have taken some measures to address this risk.

Serbia has a legal framework in place to apply targeted financial sanctions regarding FT. However, the mechanism in place does not enable the implementation of the lists "without delay". Despite the occurrence of terrorism-related activities in the region, no designations were made pursuant to United Nations Security Council Resolution (UNSCR) 1373.

While the Serbian authorities appear to understand the FT risk pertaining to the NPO sector, no formal review has been undertaken with regard to its size, relevance, activities and its vulnerability to misuse. This is a concern due to the FT risks that the country faces.

There is no law or mechanism regulating targeted financial sanctions related to proliferation of weapons of mass destruction (WMD).

Customer due diligence (CDD) measures and record-keeping requirements are applied effectively by all financial institutions (FIs) and most DNFBPs. However, there are serious concerns with respect to real estate agents, notaries and lawyers. This is very relevant in Serbia's context, given that the NRA identifies the real estate sector as particularly vulnerable to ML. The application of the reporting requirement has improved within the banking and

money remittance sector, although further improvements are needed. Very few reports are submitted by other reporting entities.

Overall, the licensing authorities of FIs implement measures to prevent criminals from controlling reporting entities effectively. However, as concerns DNFBPs, the efforts undertaken by the authorities vary significantly amongst sectors. Supervisory authorities are not yet focussing the frequency and intensity of their supervision of sectors and individual licensees based on ML/FT risk. The banking supervisory department of the National Bank of Serbia (NBS) has already taken significant steps in this respect, as has the APML. All supervisory authorities, except for the NBS, have a significant shortfall in staff resources which have a negative impact on the thoroughness of supervision. It was not demonstrated that the sanctioning regime has been used effectively.

Basic information on legal persons is publicly available and, therefore, transparent. However, there is no process for verifying the information that is provided to the SBRA or the Central Securities Depository or for checking whether it requires updating. Beneficial ownership information is available in a timely manner. Legal persons are required to have a bank account and in addition there are limitations on the use of cash for trading in goods and services which make it impractical for any trading entity not to have a bank account.

Serbia has made credible efforts to provide constructive mutual legal assistance and extradition in a constructive manner. Further efforts are required to ensure that assistance is provided in a timely manner. Serbia has actively sought assistance in one large case, demonstrating that there is a capability by the authorities when the need arises. However, the authorities should seek this type of assistance more regularly. Informal cooperation is largely effective.

### **Risks and General Situation**

Serbia faces a range of significant ML and FT threats and vulnerabilities. Organised crime is a major ML threat in Serbia. Smuggling, trafficking and, to a lesser extent, the production of narcotic drugs is the most extensive form of criminal activity which organised criminal groups operating in Serbia engage in. Organised criminal groups are also active in the trafficking of human beings and, more recently, in the facilitation of migrant smuggling. Tax evasion is a major proceeds-generating offence within Serbia. Corruption-related offences, including embezzlement, accepting and giving of bribes and abuse of office, which are often directly linked to organised criminality, constitute a significant ML threat.

Transfer of property with the intent to conceal or misrepresent the lawful origin of the property, or conceal or misrepresent the facts about the property, and use of the property with knowledge that it originates from crime are the most frequent money laundering methods. An analysis of the proceeds seized by law enforcement authorities indicates that proceeds of crime, especially those generated by drug trafficking, are generally laundered through the purchase of real estate, valuable moveable property and investment in securities. The misuse of domestic and foreign (offshore) legal persons together with multiple use of wire transfers are common money laundering typologies in relation to all forms of proceeds-generating crime. The country's exposure to cross-border illicit flows is significant. This is largely related to the existence of organised criminal groups, which generally have links with foreign associates. Suspicious transactions reported to the FIU by reporting entities and related to foreign exchange payment operations and cross-border money transfers also indicate the importance of international links.

Serbia's geopolitical situation is highly relevant when considering the risks of terrorism and financing of terrorism that the country faces. The aftermath of past conflicts in the Balkan region is believed to have given rise to terrorism risks originating from separatist and/or

extremist groups situated in the region and in certain parts of the southern regions of Serbia. Countries and territories in the region have recently experienced an increase in Islamic radicalisation and nationals joining the so-called Islamic State (ISIS) as foreign fighters in Syria and Iraq. Some members of the ethnic separatist and/or religious extremist groups in Serbia are also believed to have joined ISIS. There are various factors pointing to an elevated degree of FT risk in Serbia, particularly emanating from the non-profit sector and informal money remittances.

Serbian authorities view the region in or close to Kosovo\* as being vulnerable to use by organised criminals involved in the trafficking of drugs, human beings and arms as a means of avoiding detection and prosecution. The porosity of the boundary line facilitates an active black market for smuggled consumer goods and pirated products. In addition, the region of Kosovo\* and the neighbouring southern parts of Serbia alongside the boundary line were mentioned as areas vulnerable to the activity of religious extremist and/or ethnic separatist groups involved in terrorist acts.

In terms of materiality, the banking sector is the largest within the financial sector in Serbia. Banks account for 92.4% of assets held by the financial sector. Cross-border formal and informal money transfers are also a material component in Serbia. Statistics by the National Bank of Serbia indicate that formal and informal money transfers into Serbia constitute 9 to 10% of Serbian GDP, making them one of the largest sources of foreign income. Despite efforts made by the authorities, the shadow economy still constitutes a problem in Serbia. It is estimated that the size of the shadow economy is approximately 33.6% of GDP. The shadow economy is exacerbated by the widespread use of cash. According to the Tax Administration, cash transactions in significant amounts are conducted in businesses dealing with foreign trade, purchase of secondary raw materials and agricultural products, as well as in the entities engaged in the construction industry.

#### US Department of State Money Laundering assessment (INCSR)

Serbia was deemed a Jurisdiction of Concern by the US Department of State 2016 International Narcotics Control Strategy Report (INCSR).

Key Findings from the report are as follows: -

#### **Perceived Risks:**

Although Serbia is not considered a regional financial center, it is situated on a major trade corridor, known as the Balkan route, which is used by criminal groups for various criminal activities, including narcotics trafficking and smuggling of persons, weapons, pirated goods, and stolen vehicles. While the bulk of narcotics seizures continue to be of heroin, seizures of South American cocaine transiting Serbia to Western European countries also occur. Traffickers are often Serbian organized criminal groups or transnational organized criminal groups that include Serbian citizens. Serbia has a black market for smuggled goods. Illegal proceeds are generated from drug trafficking, corruption, tax evasion, and organized crime, as well as other types of crimes. Proceeds from illegal activities are invested in real estate and businesses. Cyprus, Macedonia, Hungary, Switzerland, Austria, Netherlands, and China are also destinations for laundered funds. Trade and service-based transactions, in the form

of over- and under-invoicing, are commonly used for laundering money, as are shell companies incorporated in Serbia and abroad in offshore destinations. Purchases of some private and state-owned companies have been linked to money laundering activities. According to the Council of Europe, money laundering costs the Serbian economy between three and five percent of its GDP every year.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR ILLEGAL DRUG SALES THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

"All serious crimes" approach or "list" approach to predicate crimes: All serious crimes  
Are legal persons covered: criminally: YES civilly: YES

KNOW-YOUR-CUSTOMER (KYC) RULES:

Enhanced due diligence procedures for PEPs: Foreign: YES Domestic: NO  
KYC covered entities: Banks; licensed money exchanges and remitters; investment and pension fund management companies; financial leasing providers; insurance companies, brokers, agents, and life insurance businesses; persons dealing with postal communications and postal transmitters; broker-dealer companies; casinos and organizers of games of chance; auditors; real estate intermediaries; accountants; tax advisers; intermediaries in credit, lending, factoring, and forfeiting; guarantors; and lawyers

REPORTING REQUIREMENTS:

Number of STRs received and time frame: 4,445: January 1 – November 18, 2015  
Number of CTRs received and time frame: 245,257: January 1 – November 18, 2015  
STR covered entities: Banks; licensed money exchanges and remitters; investment and pension fund management companies; financial leasing providers; insurance companies, brokers, agents, and life insurance businesses; persons dealing with postal communications; broker-dealer companies; casinos and organizers of games of chance; auditors; real estate intermediaries; accountants; tax advisers; intermediaries in credit, lending, factoring, and forfeiting; guarantors; and lawyers

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 36 in 2014  
Convictions: 20 in 2014

RECORDS EXCHANGE MECHANISM:

With U.S.: MLAT: NO Other mechanism: YES  
With other governments/jurisdictions: YES

Serbia is a member of the Council of Europe Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL), a FATF-style regional body.

**ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:**

On December 31, 2014, the Serbian government adopted the National Strategy for the Fight against Money Laundering and Terrorism Funding, which covers strategic planning, coordination, and cooperation of all concerned government agencies and departments. The National Strategy covers the period until 2018 and envisages the constitution of expert teams to coordinate government actions addressing AML/CFT.

The Government of Serbia continues to take steps to strengthen its AML/CFT regime. Adoption of amendments to Serbia's Law on Prevention of Money Laundering and Terrorist Financing, finalized in 2014, is on hold pending EU adoption of new money laundering directives. This is to ensure that Serbian amendments are in accordance with the EU directives and international standards.

On March 20, 2015, the Serbian Parliament adopted the Law on Restrictions on Disposal of Property with the Aim of Preventing Terrorism. The law sets forth the process for establishing a list of designated persons and entities, and the procedure for freezing assets in line with relevant UNSCRs. The law also establishes the list of authorized entities which can initiate the proceedings, decide on seizure requests, and manage the seized assets. In July 2015, the Serbian government published the list of designated persons and entities compliant with the UN Security Council Sanctions Committee Resolution of June 26, 2015.

In October 2015, the Agency for the Prevention of Money Laundering, the Serbian financial intelligence unit, adopted and disseminated a new set of ML/TF indicators for accountants, auditors, broker-dealer companies, intermediaries in securities trading, and intermediaries in real estate sales or leases.

Serbia should continue to push for stronger enforcement of existing laws within all sectors obligated to follow AML/CFT rules. Serbia should provide those entities with sufficient guidance to ensure they understand, and are able to comply with, their responsibilities under the law. The National Bank of Serbia and other supervisory bodies, as well as investigative agencies, the Administration for the Prevention of Money Laundering and Terrorist Financing, prosecutors, and judges continue to require additional resources, in particular for building their professional capabilities. Law enforcement and prosecutors should make increased use of criminal money laundering charges.

#### **Current Weaknesses in Government Legislation (2013 INCRS Comparative Tables):**

According to the US State Department, Serbia does not conform with regard to the following government legislation: -

**Ability to freeze assets without delay** - The government has an independent national system and mechanism for freezing terrorist assets in a timely manner (including but not limited to bank accounts, other financial assets, airplanes, autos, residences, and/or other property belonging to terrorists or terrorist organizations)

#### **EU White list of Equivalent Jurisdictions**

Serbia is not currently on the EU White list of Equivalent Jurisdictions

### **World Governance indicators**

[To view historic Governance Indicators Ctrl + Click here and then select country](#)

### **Failed States Index**

[To view Failed States Index Ctrl + Click here](#)

### **Offshore Financial Centre**

Serbia is not considered to be an Offshore Financial Centre

### US State Dept Narcotics Report 2016

Serbia is not a significant source country or market for illegal drugs but remains a transit country for drugs smuggled to other European markets. According to the UN Office on Drugs and Crime, between 50 and 60 metric tons of heroin originating from Afghanistan are estimated to transit Serbia annually along traditional Balkan smuggling routes controlled by multinational criminal organizations. Over the first 10 months of 2015, approximately 50 kilograms (kg) of heroin were seized by Serbian authorities. Marijuana produced in Albania is also smuggled into Serbia, and authorities reported seizing approximately 720 kg over this same 10 month period.

Synthetic drugs such as amphetamines and MDMA (ecstasy) are produced in relatively small quantities in clandestine labs in Serbia and exported mainly to European Union countries. Methamphetamine laboratories are detected and seized by authorities on an infrequent basis. Cocaine is not widely consumed in Serbia as the cost is prohibitive to most users. Serbian authorities estimate that hashish use is rising but still small when compared to the consumption of heroin and marijuana.

In 2014, Serbia established the Service for Abuse of Drugs and Drug Trafficking (formerly a subordinate unit under the Service for Combatting Organized Crime) responsible for narcotics investigations and addiction prevention programs, and increased the organization's authorized staffing from 12 to 89. Treatment and prevention of substance use disorders is mainly the responsibility of the Ministry of Health, but non-governmental organizations working on the local level also provide some services. In October, the Ministry of Interior opened a specialized training department at the Mitrovo Polje police training center to detect and investigate the production of synthetic drugs. On a regional level, bigger cities such as Belgrade, Nis, and Novi Sad have police units dedicated to curbing the use of narcotics and investigating drug-related crimes.

In 2015, the United States provided training and professional development opportunities to Serbian authorities with regard to narcotics investigations, terrorist financing, and money laundering, with a focus on task force operations to detect and dismantle criminal networks. Additional regional assistance is anticipated in 2016 to provide training for narcotics investigations supervisors, clandestine laboratory investigations, and exposure to contemporary U.S. best practices for investigations, prosecutions, task forces, and regional cooperation.

### US State Dept Trafficking in Persons Report 2014 (introduction):

Serbia is classified a Tier 2 country - a country whose government does not fully comply with the Trafficking Victims Protection Act's minimum standards, but is making significant efforts to bring themselves into compliance with those standards.

Serbia is a source, transit, and destination country for men, women, and children subjected to sex trafficking and forced labor, including domestic servitude and forced begging.

Serbian women are subjected to sex trafficking by Serbian criminal groups in northern Italy, Germany, Montenegro, Bosnia and Herzegovina, Croatia, Austria, and Sweden. Serbian nationals are subjected to labor trafficking in European countries, including Azerbaijan, Slovenia, and Russia, as well as in the United Arab Emirates in the construction sector. The government reported that Serbian citizens were subjected to forced labor at various construction sites in Sochi, Russia. Serbian victims often are subjected to trafficking by family members. There are increasing numbers of Serbian children, particularly ethnic Roma subjected to internal sex trafficking, forced labor, forced begging, and coercion to petty crime within the country. Foreign victims of trafficking identified in Serbia are from neighboring countries including Montenegro, Bosnia and Herzegovina, Bulgaria, Romania, and Moldova.

The Government of Serbia does not fully comply with the minimum standards for the elimination of trafficking; however, it is making significant efforts to do so. The government continued to prosecute and convict trafficking defendants; significantly increased funding for the center for victim protection and trained Roma mediators on victim identification and trafficking awareness. The government, however, only partially funded the only shelter for victims of trafficking operated by a NGO and victims were not afforded sufficient protections in criminal proceedings against repeated victimization and intimidation.

### US State Dept Terrorism Report 2015

**Overview:** The Government of Serbia continued its efforts to counter international terrorism in 2015. The Government of Serbia hosted a regional counterterrorism conference focused on foreign terrorist fighters and sent representatives to countering violent extremism (CVE) conferences hosted in Albania, Italy, and Slovenia. Serbia's law enforcement and security agencies, the Ministry of Interior (MUP)'s Directorate of Police, and the Security Information Agency (BIA), continued bilateral counterterrorism cooperation with the United States. During the year, the migrant crisis overwhelmed Government of Serbia resources, with many of the more than 500,000 migrants and refugees who passed through Serbia having done so with minimal vetting and processing. As a result of the significant uptick in refugee/migrant arrivals during the latter half of the year, the Government of Serbia sought assistance from the United States and other strategic partners for more advanced screening methods. Despite Serbian political leaders' public support for counterterrorism measures and some initial steps during the year to better coordinate the government's counterterrorism activities, the Government of Serbia lacked a national Counterterrorism Strategy at year's end and had no infrastructure or strategy for state-sponsored CVE programs.

The Government of Serbia continued its public condemnation of Islamic State of Iraq and the Levant (ISIL) activities and voiced support for ongoing efforts to disrupt and counter the group. The Minister of Foreign Affairs and Minister of Interior, among others, publicly stressed the importance of cooperation in the global effort to counter ISIL. Already a member of the Counter ISIL Coalition, the Government of Serbia joined the Coalition's Foreign Terrorist Fighter Working Group. A lack of resources and limited capacity prevented the Government of Serbia from pursuing membership in other Coalition working groups. The difficult economic situation in Serbia continued to limit the likelihood of substantial financial or material contributions to the Coalition.

**Legislation, Law Enforcement, and Border Security:** The Government of Serbia made some strides on the counterterrorism front in 2015 following the development of counterterrorism programs and passage of foreign fighter legislation in 2014.

The Government of Serbia lacked a strategic, interagency approach to handling terrorism-related matters. Efforts to create a national Counterterrorism Strategy began in July, but there is no timeline for completing it. A lack of clarity regarding primacy between law enforcement and prosecutorial authorities, as well as jockeying between agencies competing for primacy in the field of counterterrorism, has hampered interagency cooperation. The Serbian security sector, including MUP's Special Anti-Terrorism Unit and the Counter-Terrorist Unit, participated in training courses offered by DOJ's Overseas Prosecutorial Development, Assistance, and Training Program; and the International Criminal Investigative Training Program.

Transnational terrorism concerns within Serbia were similar to those facing other Western Balkan states which are located on a historical transit route between the Middle East and Western Europe. Serbian authorities were alert to efforts by international terrorists to establish a presence in, or transit, the country. The Government of Serbia continued to cooperate with neighboring countries to improve border security and information sharing. The migrant crisis exposed numerous vulnerabilities in Serbia's border security, which was matched by vulnerabilities in aspects of the border security of neighboring countries. In response to the migrant crisis, the Government of Serbia contacted multiple international partners to seek advice and assistance related to the implementation of screening tools to better identify and prevent potential terrorist travel to Western Europe via Serbia. Embassy Belgrade's Export Control and Related Border Security (EXBS) program continued to conduct training courses for and donate equipment to Serbian Customs and Border Police to help address border security matters. For example, EXBS donated a Secure Video Link network to the Customs and Border Police of Serbia, Bosnia and Herzegovina, and Croatia to provide immediate and secure video communications among the countries' operations centers in the event of a terrorist incident. However, long sections of Serbia's borders remained porous, particularly those borders shared with Kosovo and Bosnia and Herzegovina. The Department of State's Antiterrorism Assistance program supported Serbian participation in a series of border security-related courses aimed at addressing the travel of foreign terrorist fighters.

**Countering the Financing of Terrorism:** Serbia is a member of the Council of Europe's Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism, and has observer status in the Eurasian Group on Combating Money Laundering and Terrorism Financing (EAG), both Financial Action Task Force (FATF)-style regional bodies. Serbia's financial intelligence unit, the Administration for the Prevention of Money Laundering, has been a member of the Egmont Group since 2003.

On December 31, 2014, the Serbian government adopted the National Strategy for the Fight against Money Laundering and Terrorism Funding, which covers strategic planning, coordination, and cooperation of all concerned government agencies and departments. The National Strategy covers the period until 2018 and envisages the constitution of expert teams to coordinate government actions involved with anti-money laundering and combating the financing of terrorism.

As the end of 2015, the adoption of amendments to Serbia's 2014 Law on Prevention of Money Laundering and Terrorism Financing was on hold pending the EU's adoption of new money laundering directives. The planned amendments would harmonize the Serbian law with expected EU rules and with the set of 40 recommendations adopted in 2012 by the FATF on Money Laundering.

In March 2015, the Serbian Parliament passed the Law on Freezing of Assets with the Aim of Preventing Terrorism. In March, the Anti-Money Laundering Directorate (AMLD) published an amended list of indicators for recognizing suspicious transactions related to terrorism financing. As a result, relevant state institutions are required to include them in the list of indicators they develop pursuant to the Law on the Prevention of Money Laundering and Terrorism Financing. In September, the AMLD issued a new set of indicators for recognizing money laundering and terrorism financing for banks, brokers, insurance companies, and real estate agents. These indicators entered into force on October 1.

Consistent with the new Law on Freezing Assets with the Aim of Preventing Terrorism, in July, the Government of Serbia issued a list of designated persons and entities. Serbian authorities have an ability to seize and confiscate terrorist assets pursuant to asset forfeiture mechanisms. The asset freezing mechanism was created with the adoption of the Law on Freezing Assets in March.

Serbian authorities routinely distribute the UN sanctions lists to financial institution through the AMLD. As of July, Serbia has a list of designated terrorists or terrorist entities, which includes persons designated by the UN.

**Countering Violent Extremism:** The Government of Serbia neither has a comprehensive national strategy nor programs in place for countering violent extremism (CVE). In 2015, the Government of Serbia appointed State Secretary (Deputy Foreign Minister-equivalent) Roksanda Nincic as the point of contact for CVE-related matters. Additionally, the Government of Serbia sent representatives to regional CVE conferences in Albania, Italy, and Slovenia.

**International and Regional Cooperation:** Serbian cooperation with the United States on counterterrorism issues is generally strong. U.S. law enforcement and justice sector authorities have provided assistance to Serbian counterparts in Serbian terrorism cases.

The Government of Serbia is engaged in limited regional and international cooperation on counterterrorism issues. In January, the Government of Serbia offered counterterrorism assistance to Nigeria following attacks there by Boko Haram. Elements of the Government of Serbia, including MUP and BIA, cooperated with INTERPOL and Europol on counterterrorism activities, including watchlists. Regarding regional border security, Serbia's level of cooperation is strongest with Bulgaria, Hungary, and Romania. Cooperation with Croatia, Montenegro, and Bosnia and Herzegovina is less developed. Because of the sensitive issue of Kosovo, whose independence Serbia does not recognize, cooperation on border security is least developed between Serbia and Kosovo. However, advances were made on this front in 2015, including such steps as the inclusion of Kosovo's Minister of Interior in a regional counterterrorism/CVE conference co-hosted by the Serbian and U.S. government in Belgrade in April. Serbia held the chairmanship of the OSCE in 2015 and supported the organization's engagement in CVE and counterterrorism issues.

## International Sanctions

None applicable

Index	Rating (100-Good / 0-Bad)
Transparency International Corruption Index	42
World Governance Indicator – Control of Corruption	51

### **US State Department**

Corruption in Serbia is believed to be pervasive, but it is difficult to quantify. In Transparency International’s 2013 Corruption Perception Index, Serbia ranked 72 of 177 countries; an improvement from the country’s ranking of 86 in 2012. In July 2013, the Government of Serbia formally adopted a new Anti-Corruption Strategy that aligns with its EU accession commitments. Serbia is a signatory to the Council of Europe Civil Law Convention on Corruption and has ratified the Council’s Criminal Law Convention on Corruption, the United Nations Convention Against Transnational Organized Crime, and the United Nations Convention Against Corruption. Serbia is also a member of the Group of States against Corruption (GRECO), a peer-monitoring organization that provides peer-based assessments of members’ anti-corruption efforts on a continuing basis.

In an effort to combat corruption, in 2008 the National Assembly approved the creation of an Anti-Corruption Agency (ACA). The ACA began functioning in January 2010 as an independent governmental body accountable to the National Assembly. The ACA is charged with unifying current anti-corruption activities including: enforcing the National Strategy to Fight Corruption; monitoring conflicts of interest; tracking politicians’ property and assets; monitoring political party financing; and facilitating international anti-corruption cooperation.

The ACA’s first director, Zorana Markovic, was dismissed in November 2012 in the wake of allegations of abuse of authority arising from the purported misuse of state-owned apartments.

Amendments to the Law on the ACA are under consideration, and the Ministry of Justice has produced a draft whistleblower-protection law with USAID and DOJ assistance.

The Government of Serbia elected in summer 2012 made the fight against corruption a priority, and the new Government formed after March 2014 parliamentary elections is expected to maintain this focus. The anti-corruption campaign resulted in a series of highly-publicized arrests and indictments of prominent political figures, including former ministers and businessmen associated with a number of political parties. In December 2012, authorities arrested one of Serbia’s wealthiest and most powerful businessmen and his son for alleged abuses in the privatization of a road construction and maintenance company. The trial began in November 2013 and is ongoing. This case is one of 24 allegedly fraudulent

privatizations cited by the EC in its annual reports on Serbia's progress in the accession process.

Both giving and receiving a bribe is a crime in Serbia. Bribes by local companies to foreign officials are criminal acts punishable by law. Corruption offenses are handled by higher courts and prosecutors' offices. In January 2010, the Organized Crime Prosecutor's Office assumed jurisdiction over corruption-related offenses involving high-level public officials and cases involving more than USD 2.7 million in illicit proceeds.

The National Assembly amended the Criminal Code in 2012 to introduce a new corruption offense – abuse of authority in relation to public procurements – in response to the significant number of corruption cases in this area. The 2012 amendments also establish a distinction between abuse of public authority and abuse of private authority, making the latter a separate offense subject to criminal prosecution if it resulted in an unlawful benefit or significant damage. Serbian government officials indicate that drafting legislation to address corruption-related offenses by the private sector will be a priority in 2013.

Government contracts remain the most widespread currency in corrupt political spheres, and corrupt officials have commonly abused contracting procedures to drain government funds and gain personal benefit. In an attempt to remedy this situation, a new Public Procurement Law entered into force in April 2013. The law adds significant anti-corruption control mechanisms, greater transparency, and more effective oversight to public procurement procedures, in particular for small-value and non-competitive negotiated procurements. Coupled with the procurement-fraud provisions of the Criminal Code (adopted in December 2012), the new law should help expedite criminal investigation and prosecution of public procurement abuse. Awareness of the importance of public procurements in the wider anti-corruption context rose throughout 2013 as the government's anti-corruption campaign gained momentum.

The Regional Anti-Corruption Initiative, originally organized under the auspices of the Stability Pact for South Eastern Europe, maintains a website with updates about anti-corruption efforts in Serbia: <http://www.anticorruption-serbia.org/>.

## **Corruption and Government Transparency - Report by Global Security**

### **Political Climate**

The Republic of Serbia is in a process of transition, striving to join the EU. This process has meant that the task of fighting corruption has taken centre stage. On 6 May 2012, Tomislav Nikolic of the Serbian Progressive Party, won the election and became the President of Serbia. However, vote buying in elections continues to be a problem and in the UNDP Serbia Corruption Benchmarking Survey 2012, one in five voters reported to have been offered a bribe in exchange for their vote for a particular party in the May 6th general, local and presidential elections. The survey showed that most Serbian citizens have identified all kinds of corruption to have been moderately or significantly present during the spring election.

Corruption is a serious problem in Serbia, with some of the most vulnerable areas being public procurement, taxation, customs, and licensing. According to the European

Commission Serbia Progress Report 2012, Serbia made little progress in the fight against corruption in 2012. Among the negative developments pointed out in the report is the fact that the government has not yet finalised the National Anti-Corruption Strategy for 2012-2016 or the corresponding action plan. Further efforts are needed for a more intensive follow-up to the reports about high-profile corruption cases of the Anti-Corruption Council. Nevertheless, the report states that the legislative and institutional frameworks for the fight against corruption have been improved. New amendments to the Law on Health Care and the Law on Advocates were made and now include provisions on conflict of interest. The Anti-Corruption Agency started to implement the 2011 Law on the Financing of Political Activities; in particular, an extensive work was done for the monitoring of 2012 elections. The report points out that the areas of public procurement, privatisation procedures, health, and education are particularly vulnerable to corruption and remain the main concern of the observers. Even though the Anti-Corruption Agency has improved its efforts in fighting corruption and implementation of the legal framework, corruption levels are still high, and trust in key institutions remains low in Serbia. More than a half of Serbia's citizens believe that corruption affects their personal and family life, while two-thirds believe that the country's business environment have been affected in a large extent.

According to the Serbia Corruption Benchmarking Survey 2012, almost 80% of the respondents noted that political life is largely affected by corruption. As the results of the report show, the most common problems in the political sector are financing of the election campaigns in order to receive benefits in return and diversion of the state funds to favour a party's own electorate. According to the report, almost half of the surveyed citizens believe that corruption has increased in Serbia in the last year. Furthermore, 40% believe that corruption will increase in the coming year. More than half of all citizens believe that bribery is the only way to overcome extensive bureaucracy in Serbia. The government and state institutions are perceived by the citizens as having power to confront corruption; however, these institutions are also perceived to be highly corrupt. Furthermore, more than half of the respondents have evaluated the government's actions in the fight against corruption to be not at all effective or mostly ineffective, while only 2% rated the government's efforts as being effective. The Serbian government's anti-corruption initiatives have been criticised as being purely superficial and lacking real political will. While still plagued by corruption, there are signs of greater control in the area of public procurement, more regulation over conflict of interest, and increased capacity among those agencies responsible for investigating and prosecuting corruption.

### **Business and Corruption**

Serbia offers a liberal investment environment, which has been made attractive to local as well as foreign investors through an income tax of just 10%, a wage tax of 14% and the privatisation of many of Serbia's formally state-owned companies. However, the business climate has been negatively affected by the financial crisis, political instability, and uncertainty related to the future status of Kosovo, leading some potential investors to exercise a greater level of caution. According to the World Economic Forum Global Competitiveness Report 2012-2013, companies point to corruption as the second most problematic factor for doing business in Serbia, just behind an inefficient government bureaucracy. The other factors that constitute a competitive disadvantage for Serbia are difficulty in accessing finance and the rate of inflation. The World Bank & IFC Enterprise Surveys 2009 states that 21.4% of the companies surveyed expect to make informal payments to public officials in order to get things done, while 35.6% identify corruption as a

major constraint to doing business. Furthermore, corruption is ranked by companies as the most severe problem for doing business in Serbia, according to the EBRD & World Bank BEEPS Serbia 2008. According to the same survey, 55% of the companies surveyed indicated that corruption is a problem for doing business. Corruption in Serbia is problematic in taxation, customs, and licensing among other sectors.

According to the UNDP Corruption Benchmarking-Serbia 2012, the prevailing opinion in Serbia is that large companies play a role in the increased level of corruption. More than 70% of the respondents believe that it is in the interests of major enterprises to have a corrupt government, to be able to act in their own interests. SMEs are affected by corruption to a much lesser extent.

Despite progress in adopting specific legislation concerning guarantees and safeguards for foreign investors, foreign companies continue to face significant challenges when entering the market in the areas related to property rights. Frequent changes in the legal framework, insufficiently defined property rights, unlicensed and illegal construction and restitution claims hamper business operations, according to the US Department of State 2013. Global Integrity 2011 reports that conflict of interest remain a serious problem in the public procurement sector, public administration recruitment and mining and rail operations. According to the European Commission Serbia Progress Report 2012, the informal economy remains strong and hinders fair competition among companies and the overall economic development of Serbia. Companies are strongly recommended to develop, implement and strengthen integrity systems and to conduct extensive due diligence when planning to do or are already doing business in Serbia.

### **Regulatory Environment**

The Foreign Trade Law 2005 outlines guarantees and safeguards for foreign investors. It eliminates previous investment restrictions, extends national treatment to foreign investors, allows for the repatriation of profits, customs duty waivers for imported equipment used as capital-in-kind and provides guarantees against expropriation. However, according to the World Economic Forum Global Competitiveness Report 2012-2013, inefficient government bureaucracy, corruption and access to financing are ranked by companies among the most problematic factors for doing business. The report also highlights tax regulation and tax rates as highly problematic factors when doing business in Serbia. A common type of business-related corruption originates from the large number of regulations that companies have to comply with and the number of licences and permits they need to obtain. However, Serbia has eased the business start-up process in recent years by putting in place a one stop-shop and eliminating the paid-in minimum capital requirement. According to the World Bank & IFC Doing Business 2013, launching a business in Serbia now involves 6 procedures and takes an average of 12 days at a cost of 7.7% of income per capita.

In order to attract foreign investment, increase competitiveness, and make the regulatory system more efficient, the Serbian government's 'regulatory guillotine' project was initiated in 2009, aiming to remove laws and regulations considered outdated and unnecessary, according to the US Department of State 2013. As part of this on-going process, the Serbian business community plays an active role in making suggestions about which regulations should be changed. By the end of September 2012, 212 of the 340 recommendations for regulatory reform were implemented, while implementation of the last 26 recommendations remains in progress. As pointed out in the source, despite the efforts made in connection with the 'regulatory guillotine' project, the overall implementation of new laws and regulations in

Serbia remains slow. In 2004, Parliament adopted a new Law on Business Companies that provides greater clarity both in organising and operating a company and in settling disputes in both small and large companies. Serbia's entry into the Paris Club has provided mechanisms with which investors can insure their investments against commercial and non-commercial risks. More information concerning insuring investments in Serbia can be found at the Serbian Investment and Export Promotion Agency (SIEPA), which was established to provide direct assistance to investors, but is relatively small and lacks the resources to advise investors through the process from start to finish. Potential investors are advised to discuss specific projects with relevant line ministries in order to obtain the necessary support from the government. The European Commission Serbia Progress Report 2012 reports that in 2012, the establishment of a real estate registry and a digital registration system has been completed. The new system is aimed to provide quick access to accurate information about real estate ownership, which will contribute to increased transparency of investment processes, facilitate contracts and investment decisions.

The Law on Foreign Investment 2002 provides safeguards against arbitrary government expropriation of foreign investments, while Serbia's Law on Expropriation 2001 specifies conditions for expropriation. In May 2006, Serbia enacted its first Law on Arbitration that permits the use of institutional and ad hoc arbitration in commercial and labour disputes. The law seeks to promote arbitration as a serious alternative to litigation. However, the only mode of domestic arbitration currently available to companies in Serbia is through the Chamber of Commerce of Serbia, which also houses the Foreign Trade Court of Arbitration (FTCA) focusing on foreign trade or international commercial disputes involving domestic and foreign parties. The FTCA's arbitration rules are known to promote a speedy and efficient process that usually takes no more than one year. The Serbian Chamber of Commerce does not have information on the number of disputes in Serbia that have been resolved through arbitration; however, in general it is used much more often by foreign companies. Serbia ratified the New York Convention 1958 in March 2001, but with some declarations and reservations. Serbia also became a member of the International Centre for Settlement of Investment Disputes (ICSID) in 2007. The ICSID arm of the World Bank provides an effective dispute resolution mechanism for foreign investors in Serbia. An ICSID ruling carries the same force and effect as a ruling made by Serbia's highest court. It is recommended that companies provide for ICSID arbitration in their contracts with the government. Access a Lexadin World Law Guide list of related legislation in Serbia.

### Section 3 - Economy

Serbia has a transitional economy largely dominated by market forces, but the state sector remains significant in certain areas and many institutional reforms are needed. The economy relies on manufacturing and exports, driven largely by foreign investment. MILOSEVIC-era mismanagement of the economy, an extended period of international economic sanctions, civil war, and the damage to Yugoslavia's infrastructure and industry during the NATO airstrikes in 1999 left the economy only half the size it was in 1990. After the ousting of former Federal Yugoslav President MILOSEVIC in September 2000, the Democratic Opposition of Serbia (DOS) coalition government implemented stabilization measures and embarked on a market reform program. After renewing its membership in the IMF in December 2000, Serbia continued to reintegrate into the international community by rejoining the World Bank (IBRD) and the European Bank for Reconstruction and Development (EBRD). Serbia has made progress in trade liberalization and enterprise restructuring and privatization, but many large enterprises - including the power utilities, telecommunications company, natural gas company, and others - remain in state hands. Serbia has made some progress towards EU membership, signing a Stabilization and Association Agreement with Brussels in May 2008, and with full implementation of the Interim Trade Agreement with the EU in February 2010, gained candidate status in March 2012. In January 2014, Serbia's EU accession talks officially opened. Serbia's negotiations with the World Trade Organization are advanced, with the country's complete ban on the trade and cultivation of agricultural biotechnology products representing the primary remaining obstacle to accession. Serbia's program with the IMF was frozen in early 2012 because the 2012 budget approved by parliament deviated from the program parameters; the arrangement is now void. However, an IMF mission visited Serbia in February 2014 to initiate discussions with Serbian authorities on a possible new IMF arrangement and these talks will continue following the formation of the new government. High unemployment and stagnant household incomes are ongoing political and economic problems. Structural economic reforms needed to ensure the country's long-term prosperity have largely stalled since the onset of the global financial crisis. Growing budget deficits constrain the use of stimulus efforts to revive the economy and contribute to growing concern of a public debt crisis, given that Serbia's total public debt as a share of GDP doubled between 2008 and 2013. Serbia's concerns about inflation and exchange-rate stability may preclude the use of expansionary monetary policy. During the recent election campaign, the victorious SNS party promised comprehensive economic reform during the first half of 2014 to address issues with the fiscal deficit, state-owned enterprises, the labor market, construction permits, bankruptcy and privatization, and other areas. Major challenges ahead include: high unemployment rates and the need for job creation; high government expenditures for salaries, pensions, healthcare, and unemployment benefits; a growing need for new government borrowing; rising public and private foreign debt; attracting new foreign direct investment; and getting the IMF program back on track. Other serious longer-term challenges include an inefficient judicial system, high levels of corruption, and an aging population. Factors favorable to Serbia's economic growth include its strategic location, a relatively inexpensive and skilled labor force, and free trade agreements with the EU, Russia, Turkey, and countries that are members of the Central European Free Trade Agreement (CEFTA).

**Agriculture - products:**

wheat, maize, sugar beets, sunflower, raspberries; beef, pork, milk

**Industries:**

base metals, furniture, food processing, machinery, chemicals, sugar, tires, clothes, pharmaceuticals

**Exports - commodities:**

iron and steel, rubber, clothes, wheat, fruit and vegetables, nonferrous metals, electric appliances, metal products, weapons and ammunition, automobiles

**Banking**

Today there are 34 commercial banks (down from 88 in early 2001) in Serbia, most of which are authorized for international banking operations. The banking sector has undergone considerable restructuring. USAID has provided active assistance to the National Bank of Serbia to improve bank supervision and to develop institutional capacity.

On November 11, 2005, the Serbian parliament adopted a new banking law, reaffirming the role of the National Bank of Serbia in supervising much of the financial sector. The Serbian Law on Banks provides the regulatory framework for the banking sector in the country. The law determines the conditions and manner for establishing a bank, supervision and control of bank transactions, as well as the discontinuation of a bank. Supervisory authority is clearly vested in the National Bank of Serbia to oversee the banking sector. The law requires that a buyer of more than 5% of a bank's capital seek approval from the National Bank and sets the required initial capital for a bank at EUR 10 million. The law stipulates that banks are no longer run by a general manager but rather by a two-member executive board. It also introduced more responsibilities for auditors and calls for setting up a risk management unit within every bank. The National Bank is charged with formulating monetary policy, credit control, managing foreign exchange transactions, bank supervision, and the supervision of insurance companies and voluntary pension funds. The National Bank is independent from the government but reports to the Parliament. In July of 2010, Dejan Soskic was appointed Governor of National Bank of Serbia.

The National Bank of Serbia pursues a strict monetary policy with the dual objectives of controlling inflation and stabilizing the exchange rate. The dinar has depreciated substantially since 2009, which has caused great turmoil and protests by almost all major companies in Serbia, as well as some ministers within the government. The concerned parties demand that the National Bank take more serious measures to stabilize the currency. However, a number of economic experts claim that the dinar is overvalued and that the current exchange rate is artificially low. The National Bank is expected to continue its course of anti-inflationary policies. The National Bank's Monetary Board has gradually reduced the key policy rate from near 17.5% in 2008 to 9.5% at the end of 2009. In an effort to curb inflationary pressures in 2010, the NBS increased the key interest rate, from 9.5% at the beginning of 2010, to 12% at the end of the year. It is expected in 2011 the same key policy rate will be set by NBS. According to banking legislation, foreign legal entities and private

individuals may establish new banks or make investments in existing banks provided that the condition of reciprocity is met.

Of the 34 banks in the Serbia, 20 are foreign owned, 9 are domestic private banks, and the remaining 5 are majority owned by the state. Foreign ownership resulted primarily through acquisitions of existing banks and through licenses.

Foreign banks interested in opening a representative office in Serbia may do so provided they meet the conditions of reciprocity. This includes for the purpose of market research in banking and financing, or for the purpose of advertising, promotion and representation. A representative office does not have the status of a legal entity and is not allowed to engage in banking operations. The entity who establishes the office guarantees all the obligations of the representative office. Permission to operate is granted to representative offices of foreign banks by the National Bank, which maintains the Register of Representative Offices of Foreign Banks and issues permits for their registration. Currently there are six representative offices operating in Serbia.

## Stock Exchange

Serbia has a capital market infrastructure, but the equity and bond markets are underdeveloped. Securities and Republic of Serbia bonds are traded at the Belgrade Stock Exchange (BSE). Out of 1,750 companies listed on the stock market, shares in fewer than 100 companies trade regularly (i.e., more than once a week). Total annual turnover at the BSE was halved in 2009 to 442 million Euros (about \$580 million) and halved again in 2010 to about 222 million Euros (about \$300 million). The declines are generally attributed to the global economic crisis.

### Executive Summary

Following the country's recent political progress, Serbia's investment climate is slowly improving. In April 2013, the country signed an agreement to normalize relations with neighboring Kosovo, which paved the way for the January 2014 opening of accession negotiations with the European Union (EU). These developments present a real opportunity for the country to attract new foreign direct investment (FDI), especially as the government moves to align domestic legislation with EU standards and implement other measures to improve the business environment.

The Serbian government continues to prioritize investment, especially investment originating from abroad. U.S. investors report positively on doing business in Serbia; they highlight the country's strategic geographic location, the well-educated and affordable labor force, and the free trade agreements with key markets (including Russia, Turkey, and the EU) as particular appeals. Although there are occasional challenges with bureaucratic delays and corruption, for the most part U.S. investors enjoy a level playing field with their Serbian and foreign competitors. The U.S. Embassy in Belgrade assists investors when issues arise, and Serbian leaders are responsive to our concerns.

The March 2014 national elections resulted in Aleksandar Vučić becoming the new Prime Minister, and he has identified economic growth as his top concern. Prime Minister Vučić has promised swift action by his government to resolve a number of long-standing issues related to the country's slow transition to market-driven capitalism. On the legislative front, the country's outdated labor, construction permitting, bankruptcy, and privatization laws hinder development of a stronger business environment. The public sector is bloated, and more than 150 struggling state-owned enterprises (SOEs) are in urgent need of restructuring. Tens of thousands of government employees may face layoffs as the government implements these reforms. While this will be painful for the Serbian economy, the government recognizes the need to cut spending while also improving the investment climate to draw in new private sector companies to offset the public sector job losses.

If the government delivers on promised reforms, investors could find significant, meaningful business opportunities over the next few years. Key sectors poised for growth include agriculture, information and communications technology (ICT), and mining. Investors should monitor economic reform steps that the new Serbian government takes during 2014. Comprehensive reform in the areas listed above will signal that the state is serious about opening the economy to private investment. Similarly, investors should follow the development of the new investment incentive program, which the Prime Minister has said will feature smarter, individually tailored offerings. With an already adequate climate for foreign investors, there is room for substantial progress in the near term as the new Serbian government places economic reform at the top of its agenda.

### 1. Openness To, and Restrictions Upon, Foreign Investment

Serbia is open to foreign direct investment (FDI), and attracting FDI is a priority for the Serbian government. Even during its communist past, Serbia prioritized international commerce and

has attracted a sizeable international business community. This trend looks to continue, as recently installed Prime Minister Aleksandar Vučić develops a new package of government incentives for foreign investors.

Serbia's Law on Foreign Investments extends national treatment to foreign investors, allows the transfer or repatriation of profits and dividends, provides guarantees against expropriation, and allows customs-duty waivers for equipment imported as capital-in-kind. The Law on Foreign Exchange Operations regulates payments between residents and non-residents, while the Law on Protection of Competition regulates fair competition in the market.

Serbia obtained European Union (EU) candidate status on March 1, 2012, and January 21, 2014, marked the opening of the country's formal accession negotiations. The government is implementing a National Program for Integration into the EU to harmonize domestic legislation with EU norms. This modernization of Serbian legislation would contribute significantly to improvements in the investment climate in areas including foreign trade, corporate governance, and environmental regulation.

Serbia has struggled with a rising fiscal deficit and has looked to plug the budget gap with new revenue measures. In December 2012 the Serbian National Assembly adopted Amendments to the Law on Corporate Profit Tax that increased the corporate-profit tax rate from 10 to 15 percent, and in 2013, the government amended the same law to cancel a tax holiday for investments in new equipment. Still, the government continues to offer some incentives designed to attract foreign investors, including a 10-year corporate-profit tax holiday introduced for companies that invest more than USD 11.9 million and hire at least 100 new employees. The government maintains the Serbian Investment and Export Promotion Agency (SIEPA) (<http://www.siepa.gov.rs/sr/>) to administer the investment incentive program. In 2010, Serbia established economic advisor positions at select foreign missions, including the Serbian Consulate General in Chicago, to promote foreign investment in Serbia (<http://www.scgchicago.org/>).

In addition to SIEPA, the Serbian Privatization Agency works with potential investors on investment opportunities in state-owned enterprises. Details about privatization policies are located in the "Competition from State-Owned Enterprises" section below.

The government of Serbia actively promotes the growth of specific economic sectors. The country's National Development Strategy designates **automobiles, information and communications technologies (ICT)**, and electronics as priority sectors, for which the government offers investors special incentive packages (<http://www.gs.gov.rs/lat/strategije-vs.html>). The strategy also states that the country's industrial policies aim to attract FDIs in "high value" areas such as renewable **energy**, new technologies, logistic centers, customer centers, **automobiles**, and **chemicals**.

The Law on Foreign Investments prohibits foreign companies from establishing a company in the production and trade of arms (for example, the **defense** industry) and in specific areas of the country marked as prohibited areas. Although a foreign company can establish a joint venture with a domestic company in these areas, the foreign company cannot obtain majority ownership.

From 2001-2011, the Serbian government privatized 2,380 state-owned enterprises (SOEs), generating revenues of USD 3.4 billion for the Serbian budget. The government later cancelled 646 of these privatizations, alleging that investors did not meet contract obligations related to employment and investment. Meanwhile the number of workers employed at privatized companies decreased from 680,000 to 270,000 (<http://www.ecinst.org.rs/sites/default/files/page-files/prezentacija-privatizacija-u-srbiji-ivan-nikolic.pdf>).

The Serbian government continues to engage foreign investors in the privatization process, inviting them to submit tenders, participate in auctions, and purchase company shares. Prime Minister Vučić announced that during the summer of 2014, the National Assembly will adopt key reform laws, including a new Privatization Law that would facilitate the conclusion of other planned privatizations by the end of 2014. At present, the Ministry of Economy lists more than 150 SOEs in need of restructuring. The Ministry is working to provide a detailed assessment of each company's assets and liabilities to potential investors. Companies still awaiting privatization (or re-privatization) include **metal, machinery, and food and beverage** producers. Poor financial situations, outdated technology, and a lack of relevance in the modern global economy render some of these companies unappealing. However, with an estimated market value of USD 2.6 billion in 2013, state telecommunications company Telekom Srbija has garnered significant investor interest. Still, a 2011 attempt at privatization failed when the sole bidder, Telekom Austria, failed to offer the minimum bid set by the Serbian government. The state steel company in Smederevo may also attract foreign investor interest.

The National Assembly enacted the new Law on Protection of Competition in July 2009 and subsequently amended it in 2013. As an independent organization responsible to the National Assembly, the Commission for the Protection of Competition implements the law. The Commission also applies rules that regulate competition in the EU market, in accordance with Article 73 of Serbia's Stabilization and Association Agreement (SAA) with the European Union. The commission is active in the market and in 2012, according to its annual report, initiated 92 proceedings for competition violation. However, the commission cited difficulties with "judicial review of decisions of the commission, particularly the extreme slow action of the Supreme Court of Cassation." Actions of the commission are published online at: <http://www.kzk.org.rs/en/izvestaji>.

According to SIEPA, since 2000, Serbia has attracted USD 29.1 billion in gross FDI. The peak year for investments was 2006 when Serbia attracted USD 5.6 billion, followed by a gradual slowdown in FDI inflow to USD 1.4 billion in 2013. Sectors that attracted the largest amount of FDI included finance, manufacturing, wholesale and retail, real estate, and transport (<http://siepa.gov.rs/en/index-en/invest-in-serbia/strong-fdi-figures.html>). The National Bank of Serbia (NBS) and SIEPA track FDI inflows.

A number of well-known multinational companies completed major investments in Serbia between 2011 and 2014: Fiat and Benetton (Italy), Siemens and Grundfos (Germany), Delhaize (Belgium), Yura (South Korea), and Actavis, Cooper Tire, Johnson Controls, KKR, and NCR (United States) are represented in the Serbian market. Both Ball Corporation and PepsiCo have expanded their investments in recent years. Foreign investors cite Serbia's strategic location in the Balkans, relatively inexpensive and skilled labor force, free trade

agreements with key markets (the European Union, Russia, Turkey, Central European Free Trade Agreement countries, and others), and Serbian government support mechanisms for investors as the prime incentives for opening new businesses in the country.

Measure	Year	Rank or value	Website Address
TI Corruption Perceptions index	2013	72 of 177	<a href="http://cpi.transparency.org/cpi2013/results/">http://cpi.transparency.org/cpi2013/results/</a>
Heritage Foundation's Economic Freedom index	2013	95 of 177	<a href="http://www.heritage.org/index/ranking">http://www.heritage.org/index/ranking</a>
World Bank's Doing Business Report "Ease of Doing Business"	2013	93 of 189	<a href="http://doingbusiness.org/rankings">http://doingbusiness.org/rankings</a>
Global Innovation Index	2013	54 of 142	<a href="http://www.globalinnovationindex.org/content.aspx?page=gii-full-report-2013#pdfopener">http://www.globalinnovationindex.org/content.aspx?page=gii-full-report-2013#pdfopener</a>
World Bank GNI per capita	2012	5,280 USD	<a href="http://data.worldbank.org/indicator/NY.GNP.PCAP.CD">http://data.worldbank.org/indicator/NY.GNP.PCAP.CD</a>

## 2. Conversion and Transfer Policies

Serbia's Foreign Investment Law guarantees the right to transfer and repatriate profits from Serbia, and foreign exchange is readily available ([http://www.nbs.rs/export/sites/default/internet/english/20/laws/law\\_foreign\\_exchange\\_operations.pdf](http://www.nbs.rs/export/sites/default/internet/english/20/laws/law_foreign_exchange_operations.pdf)). Serbia permits a relatively free flow of capital, including for investment in Serbia such as the acquisition of real estate and equipment. Non-residents may maintain both foreign currency and dinar denominated bank accounts without restrictions. Investors may use these accounts to make or receive payments in foreign currency. Non-residents may not transfer capital to purchase domestic short-term securities. The government amended the Foreign Exchange Law in December 2012 to authorize Serbian citizens to conclude transactions abroad through Internet payment systems such as PayPal. The National Bank of Serbia targets inflation in its monetary policy and regularly intervenes in the foreign exchange

market to that end. The dinar has been relatively stable, depreciating by 1.5 percent between January 1, 2013, and April 9, 2014.

Remittances denote a significant additional income source for Serbian households. In 2013, Serbian citizens received total remittances of USD 4.0 billion, equivalent to more than nine percent of GDP ([http://www.nbs.rs/internet/cirilica/80/platni\\_bilans.html](http://www.nbs.rs/internet/cirilica/80/platni_bilans.html)). However, recipients most often used these remittances for consumption rather than investment (<http://issuu.com/world.bank.publications/docs/9780821382189?e=1107022/2728353>).

Serbia is a member of MONEYVAL, which regularly assesses the implementation of anti-money laundering and counter-terrorist financing (AML/CFT) measures in Serbia (<http://www.fatf-gafi.org/countries/s-t/serbia/>). Serbia is also an observer of the Eurasian Group (EAG). In November 2010, the National Assembly amended the Anti-Money Laundering and Counter-Terrorism Law to require banks and other financial institutions to gather data about legal and natural persons that electronically transfer money and to monitor unusual transactions. The amendments also expand the role of the Anti-Money Laundering Unit of the Ministry of Finance by vesting it with supervisory authority over a number of institutions and business, including money transmitters and factoring and forfeiting entities.

**The 2013 International Narcotics Control Strategy Report (INCSR) listed Serbia as a “country of concern,” explaining that,** “Serbia is situated on a major trade corridor known as the Balkan route and commonly confronts narcotics trafficking; smuggling of persons, weapons, cigarettes, vehicles, and pirated goods; tax evasion; and other criminal activities . . . Serbia has long been and continues to be a black market for smuggled goods. Corruption and organized crime also continue to be significant problems in Serbia. Proceeds from illegal activities are invested in real estate and, increasingly, into sports, particularly football (soccer) club operations. Cyprus, Macedonia, Hungary, Switzerland, Austria, Netherlands, and China are destinations for laundered funds. Trade and service based transactions, particularly through the use of over- or under-invoicing, are a commonly used method for laundering money and transferring value. Purchases of some private and state-owned companies have been linked to money laundering activities.” (<http://www.state.gov/j/inl/rls/nrcrpt/2013/database/211183.htm#Serbia>)

### **3. Expropriation and Compensation**

Serbia’s Law on Expropriation, approved by the National Assembly in 2001 with amendments in 2009, authorizes expropriation for the following reasons: education; public health; social welfare; culture; water management; sports; transport; power and public utility infrastructure; national defense; local/national government needs; environmental protection; protection from weather-related damage; exploration for, or exploitation of, minerals; land needed for re-settlement of people holding mineral-rich lands; property required for certain joint ventures; and housing construction for the socially disadvantaged.

In the event of an expropriation, Serbian law requires compensation in the form of similar property or cash approximating the current market value of the expropriated property. The law sets forth various criteria for arriving at the amount of compensation applicable to different types of land (agricultural, vineyards, or forests) or easements that affect land value.

The local municipal court is authorized to intervene and decide the level of compensation if there is no mutually-agreed resolution within two months of the expropriation order.

The current Law on Foreign Investment provides safeguards against arbitrary government expropriation of foreign investments. There have been no cases of expropriation of foreign investments in Serbia since the dissolution of the former Republic of Yugoslavia.

There are, however, outstanding claims against Serbia related to property nationalized under the Socialist Federal Republic of Yugoslavia. The Law on Private Property and Compensation, which went into effect October 2011, applies to property seized by the government since the end of World War II (May 1945), and also includes special coverage for victims of the Holocaust, who are authorized to reclaim property confiscated by Nazi occupation forces. The restitution laws provides for restitution of property in-kind, when possible, and financial compensation in state bonds as an alternative in cases where in-kind restitution is not possible. However, many properties are exempt from in-kind restitution. In addition, there are no legal provisions to address "heirless properties" left by victims of the Holocaust.

When the government may not return property in-kind, claimants may receive compensation in cash or bonds. Serbia has allocated EUR 2.0 billion for financial compensation in bonds. Bonds issued beginning January 1, 2015, will be denominated in euros, carry a two-percent annual interest rate, have a maturity period of 15 years, and be tradable on securities markets. For citizens 70 years of age and older, the bond maturity period is five years. The deadline for filing restitution applications was March 1, 2014. The Agency for Restitution received over 70,000 property claims and expects it to take two to three year to adjudicate restitution claims that requested restitution of property in-kind, while financial compensation in bonds will start next year. Additional information about the Agency for Restitution is available at its website (<http://www.restitucija.gov.rs/eng/index.php>).

The restitution law caps the amount of compensation that any single claimant may receive at EUR 500,000 (approximately USD 650,000). The law establishes a reciprocity principle for foreign citizens that permits them to file claims in Serbia if their home nation allows similar claims by Serbian citizens. Serbia has signed 22 such bilateral agreements, including with the United States. Many U.S. citizens filed claims under the law. Serbia's 2006 Law on Restitution to Churches and Religious Communities authorizes in-kind property restitution, financial reimbursement, and substitution of alternative property as means of compensation. However, the government has not reconciled this law with the Law on Private Property and Compensation described above.

#### **4. Dispute Settlement**

Serbia's judicial system is based on European civil law. Lower courts may, however, use higher court decisions as guidance. Serbia's judiciary lacked independence and was subject to political manipulation during the communist and Milosevic eras. The Government of Serbia is working to reform the court system to create a more independent, efficient, responsible, and transparent judiciary. The U.S. government, through USAID and the Department of Justice, is providing assistance for improving criminal justice procedures and for court reform.

In July 2013, the government formally adopted the national Judicial Reform Strategy and Action Plan in order to tackle judicial-reform issues in more systemic manner. Aligned with the requirements of the EU accession process, the Strategy emphasized the five pillars of “independence, impartiality and quality of justice, competence, accountability, and efficiency.”

In November 2013, the government enacted a package of amendments to the four key justice-sector laws – on the Public Prosecution Service, Judges, Court Organization, and the Court and Prosecutorial Network. The Law on the Public Prosecution provides only modest improvement in the autonomy of individual prosecutors. Changes to the Laws on Organization of Courts and the Court and Prosecutorial Network were more substantial; many of these amendments were intended to reverse decisions made by the prior government administration, such as a significant reduction in the number of judges/prosecutors and in the number of courts and prosecutors’ offices.

In 2013, the new Criminal Procedure Code (CPC) took effect nationally. It enables more efficient and effective criminal proceedings and provides protection for human rights consistent with European and international standards. Innovations include prosecutor-led investigations, expanded availability of special investigative techniques and cooperating witnesses, a reduced role for the trial judge through more adversarial procedures, and implementation of stricter and more efficient appellate procedures to streamline the appeals process and reduce the number of extraordinary legal remedies.

#### **Bankruptcy:**

The 2009 Bankruptcy Law brings Serbian bankruptcy procedures more in line with international standards. The law stipulates “automatic bankruptcy” for legal entities whose accounts have been blocked for more than three years and allows debtors and creditors to initiate bankruptcy proceedings. The law ensured a faster and more equitable settlement of creditors’ claims, lowered costs, and clarified rules regarding the role of bankruptcy trustees and creditors’ councils.

According to the Bankruptcy Law, foreign creditors have the same rights as Serbian creditors with respect to the commencement of, and participation in, a bankruptcy proceeding. Claims in foreign currency are included in the bankruptcy estate in that currency, but they are calculated in dinars at the dinar exchange rate on the date the bankruptcy proceeding commenced.

In May 2006, Serbia enacted its first Law on Arbitration, which authorizes the use of institutional and ad hoc arbitration in all manner of disputes (for example, commercial and labor). The law is based on the UN Commission on International Trade Law (UNCITRAL) model law. International arbitration is accepted as a means for settling investment disputes between foreign investors and the state. The Foreign Trade Court of Arbitration (founded in 1947), the leading domestic arbitration body, operates within the Serbian Chamber of Commerce. Arbitration is voluntary and conforms to the UNCITRAL model law.

Serbia is a signatory to the following international conventions regulating the mutual acceptance and enforcement of foreign arbitration:

- 1923 Geneva Protocol on Arbitration Clauses;

- 1927 Geneva Convention on the Execution of Foreign Arbitration Decisions;
- 1958 New York Convention on the Acceptance and Execution of Foreign Arbitration Decisions;
- 1961 European Convention on International Business Arbitration; and
- 1965 Washington Convention on the International Center for the Settlement of Investment Disputes (ICSID).

Although Serbia is a signatory to many international treaties, Serbia's Privatization Agency refused for five years (2007-2012) to recognize an International Chamber of Commerce (ICC)/International Court of Arbitration award in favor of a U.S. investor. The dispute caused the U.S. Overseas Private Investment Corporation (OPIC), which had insured a portion of the investment, to severely restrict its activities in Serbia. The U.S. Embassy facilitated a settlement agreement between the Serbian government and the investor that took effect in January 2012. OPIC reinstated its programs for Serbia in February 2012.

## **5. Performance Requirements and Investment Incentives**

Despite opening accession negotiations in 2005, Serbia remains an "observer" at the World Trade Organization (WTO). The country must amend domestic legislation and conclude bilateral negotiations with current members before it can accede. Still, Serbia complies with the provisions outlined by in Trade Related Investment Measures (TRIMs) agreement.

From 2006 to the end of 2013, Serbia employed a system of cash grants and other incentives for greenfield and brownfield investment projects. These incentives included funding for research and development. The Serbian National Employment Service (NES) also provided job-creation incentives, but budgetary constraints resulted in suspension of the program. The incoming government, led by Prime Minister Vučić, announced that it will offer new incentives to encourage investment, but the program details have not been finalized.

At the provincial level, the Vojvodina Government offers some investment incentives. Managed by the Vojvodina Investment Promotion Agency (VIP), these incentives include the reimbursement of costs for project design or temporary facility leasing (up to one year) while a greenfield facility is being constructed. The maximum reimbursement level is approximately USD 139,000 per business entity. In addition, the Vojvodina Provincial Secretary for Work and Employment may award incentives for new employment. Thus far in 2014, however, no public calls for incentive applications have been issued, likely as a result of budget constraints. Details are available at [http://www.vip.org.rs/Business\\_Incentives](http://www.vip.org.rs/Business_Incentives).

A wide array of incentives are also available at the local level. For more details please visit <http://siepa.gov.rs/en/index-en/invest-in-serbia/investment-incentives>.

Serbia's tax laws offer several tax incentives to new investors. The corporate profit tax rate is a flat 15 percent, one of the lowest in the region. Non-resident investors are taxed only on income earned in Serbia. Companies that invest more than one billion RSD (approximately USD 12 million) in fixed assets and hire at least 100 new employees are exempt from the corporate profit tax for up to ten years.

The Serbian government does not maintain a policy of “forced localization” designed to oblige foreign investors to use domestic content in goods or technology. Similarly, the government does not force foreign investors to establish and maintain a certain amount of data storage within the country.

## **6. Right to Private Ownership and Establishment**

Serbian citizens and foreign investors enjoy full private property ownership rights. Private entities can freely establish, acquire, and dispose of interests in business enterprises. By law, private companies, compete equally with public enterprises in the market and for access to credit, supplies, licenses, and other aspects of doing business.

However, as prescribed by the Law on Foreign Investments, a foreign investor cannot own a majority of shares in a company producing or trading arms. Also, a foreign investor cannot establish and be majority owner of a company in an area marked as a prohibited zone. When a foreign company wishes to invest as a minority shareholder into these kinds of companies, it must obtain approval from the Ministry of Defense.

In addition, foreign citizens and companies are prohibited from owning agricultural land in Serbia, in accordance with the 2006 Agricultural Land Law. According to Serbia’s EU SAA, the government must lift the agricultural land ownership prohibition by 2017, unless Serbia requests and receives an extension on the ban.

## **7. Protection of Property Rights**

Serbia has an adequate body of laws for the protection of property rights, but enforcement of property rights through the judicial system can be extremely slow. The World Bank Doing Business 2014 report, for example, ranks Serbia 116 of 189 countries with respect to the time required to enforce a contract through the courts (635 days on average).

The country continues to grapple with the consequences of the nationalizations and confiscations of private property during the Holocaust and under the communist government of the former Yugoslavia following World War II. A multitude of factors can complicate and cloud property titles – restitution claims, unlicensed and illegal construction, limitation of property rights to “rights of use,” outright title fraud, and other issues. Investors are cautioned to investigate thoroughly all property title issues on land intended for investment projects.

During the country’s socialist years, owners of nationalized land became “users” of the land and acquired “rights of use” that, until 2003, could not be freely sold or transferred. A September 2009 Law on Planning and Construction authorized the transformation of land-use rights into rights of freehold private ownership for construction land. The law intended to allow companies that had gained land pursuant to privatization, bankruptcy, or other means to transform usage rights into ownership rights. They could do so by paying a fee representing the difference between the current market value of construction land and the cost of acquiring the land rights. Because the law did not adequately define the procedures for property right conversions, the National Assembly has amended it five times since.

Investors continue to complain that land-rights conversions are stalled. Local authorities often lack expertise in valuing land and other technical aspects of conversion, land registries avoid

positive resolution of conversion requests, and public attorneys' offices commonly challenge land-registry actions that do not recognize conversion applications. Construction permitting represents a particularly serious problem, as non-transparency and burdensome red tape put Serbia at 182 of 189 countries in World Bank's Doing Business Report. In the absence of the new construction law, these combined issues continue to impede construction activity in Serbia.

Serbia's real property registration system is based on a municipal cadastre and land books. The National Assembly adopted a modern Law on Cadastre and State Survey in August 2009, and with World Bank assistance, the government completed a seven-year cadastre modernization project in May 2012. For the first time in its history, Serbia now has the basis for an organized real estate cadastre and property title system. The new system is expected to mitigate the problem of unlicensed building construction and to spur development of the mortgage market.

However, the problem of legalizing tens of thousands of structures built over the past twenty years without proper licenses remains, as 1.3 million buildings in Serbia are not registered in the cadastre. Of this total, only 800,000 building owners have applied for legalization. In an effort to register (a precursor to legalization) all illegally built properties, the outgoing Minister of Construction and Urban Planning recently announced a new program for free registration in the cadastre, financed with a USD 60 million loan from the World Bank.

Serbia also maintains a register of movable property under the authority of the Agency for Business Registers. The World Bank Doing Business 2014 report ranks Serbia 44 of 189 countries for time required to register real property. This ranking represents a significant improvement from Serbia's 2011 ranking of 100 out of 189. Serbia's 2005 Law on Mortgages authorizes banks to issue mortgages on buildings under construction, but the law needs to be amended and harmonized with the 2009 Law on Planning and Construction.

### ***Intellectual Property***

Serbia is a World Intellectual Property Organization (WIPO) member and a signatory to all key agreements administered by WIPO. Steps have been taken to implement and enforce the WTO TRIPS Agreement. TRIPS-compliant provisions are included in Serbia's intellectual property rights (IPR) laws and enforced by courts and administrative authorities.

For the most part, Serbia's domestic legislation related to IPR is modern and complies with international standards. From 2005 to 2011, the National Assembly enacted nine new IPR laws: the Law on Trademarks, the Law on Indications of Geographical Origin, the Law on Copyrights and Related Rights, the Law on Protection of Topography of Semiconducting Products, the Law on Protection of Industrial Designs, the Law on Optical Discs, the Law on Patents, the Law on Special Competence for Efficient Protection of Intellectual Property Rights, and the Law on Organization and Competence of State Authorities in Fighting Against High Technology Crime. These laws extended legal protections to all major forms of IPR (including patents, trademarks, copyrights, industrial designs, and integrated circuits).

The most significant remaining legal steps for the full modernization of Serbia's IPR regime are

- Amendments to the Criminal Procedure Code and related procedural laws, particularly in the area of cyber-crime;

- Adoption of implementing regulations for various IPR laws; and
- Reform of the Copyright Law to comply with international standards.

In December 2012, Serbia's IPR regime backslid when the National Assembly passed amendments to the Copyright Law that exempted small businesses from paying royalties for copyrighted music; capped remuneration fees paid to collection organizations; and, allowed businesses to pay one collective bill for all music rights.

In June 2011, the government adopted a Strategy on Intellectual Property Development for 2011 to 2015 in an effort to strengthen IPR protections. Pursuant to the strategy, the government established a Permanent Coordination Body for IPR enforcement activities of the Tax Administration, Police, Customs, and state inspections services. The Public Procurement Law adopted by the National Assembly in December 2012 dictates that bidders must sign a statement affirming that they have ownership rights to the IPR utilized in fulfilling a public procurement contract. In addition, the tax administration continues to check software legality during its regular tax controls of businesses in Serbia.

Despite the relatively solid IPR legal framework, implementation of IPR laws is weak and IPR enforcement is insufficient, allowing piracy and counterfeiting to persist. Pirated optical media (DVDs, CDs, software) and counterfeit trademarked goods, particularly athletic footwear and clothing, are easily available, though the government has stepped up its actions to combat illegal street sales and to seize pirated goods at the border. Film and music industry representatives estimate that more than 95 percent of the films and music downloaded in Serbia is downloaded through unauthorized channels. Government efforts to combat software piracy have been somewhat effective – the estimated rate of software piracy has fallen from about 99 percent in 2000 to approximately 72 percent in 2011, according to the Business Software Alliance. The estimated value of the illegal software market in Serbia is USD 116 million.

Formal coordination between all entities charged with IPR enforcement is lacking, as noted in the assessment by the European Commission of Serbia's IPR activities in its 2013 Progress Report for Serbia, which can be found at:

[http://ec.europa.eu/enlargement/pdf/key\\_documents/2013/package/sr\\_rapport\\_2013.pdf](http://ec.europa.eu/enlargement/pdf/key_documents/2013/package/sr_rapport_2013.pdf).

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For a list of local attorneys, please contact the U.S. Foreign Commercial Service in Serbia at: [www.export.gov/serbia](http://www.export.gov/serbia).

For additional information about treaty obligations and points of contact at local IP offices, please see WIPO's country profiles at <http://www.wipo.int/directory/en/>.

## **8. Transparency of the Regulatory System**

To establish transparent rules and regulations, foster competition, and attract investments, the Serbian government has established independent agencies and bodies such as the State Auditing Institution, Public Procurement Office, Anti-Monopoly Commission, Energy Regulatory Agency, and Regulatory Agency for Telecommunications.

Serbia's record on transparency of the regulatory system is mixed. Some government institutions have a very good record of transparency. The Ministry of Finance, for example, maintains a comprehensive website with extensive information about existing regulations, legal and regulatory proposals, data on the government budget, public debt, and so on. But many government procedures that affect investors are opaque, with limited opportunities for investors to consult with government regulators on measures affecting their businesses. For example, the Ministry of Energy, Development, and Environmental Protection developed a new regulatory regime for investments in renewable energy in late 2012-early 2013 without adequate consultations with major renewable energy investors. Regulations are sometimes applied unevenly, or in a discriminatory manner.

The process for public participation in the drafting of new laws remains inconsistent. There is no legal requirement for public comment on proposed laws and regulations; the decision to invite public comment is left to the ministry responsible for the legislation or rule. The European Commission's 2012 Progress Report for Serbia highlighted the rushed nature of legislative review: "The drafting process continues to lack transparency, sufficient structure, and time for effective consultation of all interested parties, which would also make the legal environment more predictable."

In September 2012, the Government of Serbia eliminated 138 so-called "para-fiscal" charges imposed by various local governments that add to the financial and regulatory burden on businesses in Serbia. Eliminating the 138 charges was considered a significant step in improving business conditions by various institutions, including the National Alliance for Local Economic Development, various employers' associations, and the American Chamber of Commerce (AmCham) in Serbia. USAID has identified an additional 132 charges that should be eliminated.

According to the World Bank Doing Business 2014 report, which measures the efficiency of business regulation across 183 economies, Serbia ranked 93 on the basis of excessive delays in issuing construction permits, as well as problems with paying taxes, enforcing contracts, and resolving insolvency issues. The newly-elected government has publicly committed to passing immediate reforms in construction permitting, labor, and inspections.

Several Serbian organizations publish recommendations for government action to improve the transparency and efficiency of business regulations. The Foreign Investors Council publishes an annual "White Book" (<http://www.fic.org.rs/cms/item/whitebook/en.html>), the National Alliance for Local Economic Development NALED publishes a "Grey Book" (<http://www.naled-serbia.org/documents/lavirint/Grey%20Book%20III.pdf>), and AmCham publishes similar materials on its website: <http://www.amcham.rs/home.9.html>.

## **9. Efficient Capital Markets and Portfolio Investment**

Serbia's financial sector successfully weathered the 2008 global financial crisis, largely because of conservative banking policies and regulations that require high capital-adequacy ratios and high liquidity for banks operating in the country. Serbia experienced no bank failures or bailouts during the crisis, though a number of state-controlled banks have since had financial difficulties as a result of mismanagement and, in one instance, alleged corruption. The banks honored all withdrawal requests during the financial crisis and appear to have regained consumer trust, as evidenced by the gradual return of the withdrawn deposits to the banking system during 2009 and 2010. By February 2014, savings deposits in the banking sector reached USD 11.6 billion, exceeding the pre-crisis, October 2008 level.

The banking sector comprises 91 percent of the total assets of the financial sector in Serbia. As of September 2013, consolidation had reduced the sector to 31 banks with total assets of USD 34.6 billion (about 80 percent of GDP), with 74.8 percent of the market held by foreign-owned banks. The top ten banks, with country of ownership and estimated assets in USD are: Banca Intesa (Italy, 5.0 billion); Komercijalna Banka (Government of Serbia 40 percent, 4.2 billion); UniCredit Bank (Italy, 3.0 billion); Société Générale Banka (France, 2.5 billion); Raiffeisen Bank (Austria, 2.4 billion); Eurobank EFG (Greece, 2.0 billion); AIK Banka Nis (Serbia, 1.8 billion); Hypo Alpe-Adria-Bank (Austria, 1.8 billion); Vojvodjanska Banka (Greece, 1.3 billion); and Sberbanka (Russia, 1.2 billion). (<http://www.nbs.rs/internet/english/index.html>)

Market terms determine credit allocation. The total volume of issued loans stood at USD 20.8 billion at the end of September 2013. Average interest rates are high, and the business community in Serbia cites tight credit policies and the high expense of commercial borrowing as impediments to business expansion. Most mortgage lending, and much commercial lending, is done in euros to provide lower rates to borrowers and minimize exchange-rate risks to lenders.

The high rate of non-performing loans (NPLs) in the banking sector is problematic. The NPL rate increased from 16.9 percent of total loans issued at the end of 2010 to 21.1 percent as of September 2013. However, banking industry representatives claim that the real figure is higher - closer to 40 percent - as banks use creative loan classifications to conceal the true extent of the problem. In addition, there are significant foreign exchange risks in the sector, as 71 percent of all outstanding loans are indexed to foreign currencies (primarily the euro).

With a high NPL rate, and banks who hesitate to lend money, liquidity is an issue in Serbia and companies are hungry for working capital. In an attempt to improve liquidity in the economy, the National Assembly adopted the Law on Payment Deadlines in Commercial Transactions, which set maximum payment terms of 60 days for business-to-business transactions and 45 days for public sector-to-business sector payments. The Assembly also adopted the Law on Conditional Write-off of Interest and Tax Debt, which allows those

companies that currently pay their taxes on time but have unpaid tax debts to write off interest on the outstanding tax debt. These changes have not significantly improved liquidity in the system. According to the Serbian Association of Employers, average collection time in Serbia improved by just five days after the implementation of the payment deadlines. AmCham members noted that the law complicated business-to-business invoicing.

Portfolio investments are efficiently regulated. In 2013, Serbia attracted USD 2.5 billion in portfolio investment from abroad. The Serbian government welcomes both domestic- and foreign-sourced portfolio investments since they offer a financing source for the country's significant fiscal deficit, projected at 7.1 percent of GDP for 2014. The Serbian government regularly issues bonds to finance the budget deficit, including short-term, dinar-denominated T-bills (up to a 2-year maturity period), and dinar-denominated, euro-indexed government bonds (up to a 7-year maturity period). The total value of bonds issued on the domestic market reached USD 7.0 billion at the end of February 2014.

Since September 2011, when the Serbian government issued its first Eurobond on the international market, it sold a total of USD 5.25 billion in four issuances bearing coupon rates between 4.875 and 7.25 percent. U.S. financial companies reportedly purchased more than half of these Eurobond issuances. With both dinar-denominated T-bills and Eurobonds included, the total stock of Serbian government-issued debt instruments stood at USD 10.8 billion in February 2014 (<http://www.javnidug.gov.rs/eng/default.asp>). To meet its 2014 financing requirements, the Serbian government has announced plans to issue domestic securities of USD 4 billion, to issue additional Eurobonds of USD 750 million, and to borrow directly from foreign governments, reportedly including Russia, China, and the United Arab Emirates.

Unfavorable public-debt dynamics resulted in sovereign debt rating downgrades for Serbia in August 2012 when Standard and Poor's (S&P) downgraded Serbia's sovereign debt rating from BB to BB- with a negative outlook. Fitch Ratings followed in January 2014 by downgrading Serbia's long-term foreign and local currency Issuer Default Ratings (IDRs) to B+ from BB- with stable outlook. Both agencies cited further deterioration of public finances as the rationale for the drop.

Serbia's equity and bond markets are underdeveloped. Corporate securities and government bonds are traded on the Belgrade Stock Exchange (BSE). Of 1,087 companies listed on the exchange, shares of fewer than 100 companies are traded regularly (more than once a week). The total annual turnover at the BSE in 2013 was USD 347 million and has held at that approximate level for the past four years. Activity on the BSE remains below pre-2008 financial crisis levels, as 2007 total turnover reached USD 2.7 billion. The BSE's low turnover in the past four years is linked to the crisis in the eurozone and the struggling global economy (<http://www.belex.rs/eng/>).

Established in 1995, the Securities Commission regulates the Serbian securities market. The Commission supervises investment funds in accordance with the Investment Funds Law (passed in January 2006 and amended in July 2009 and May 2011). As of April 2014, 14 registered investment funds operate in Serbia ([http://www.sec.gov.rs/index.php?option=com\\_content&task=category&sectionid=7&id=95&Itemid=151](http://www.sec.gov.rs/index.php?option=com_content&task=category&sectionid=7&id=95&Itemid=151))

Hostile takeovers have been extremely rare in Serbia in recent years. Share takeovers usually occur in cases of “rounding-up” ownership shares acquired in the privatization process, when a company that is already the majority owner makes an offer to assume remaining minority shares. Articles 38 and 39 of the Law on Takeover of Shareholding Companies regulate defense mechanisms of companies.

## 10. Competition from State-Owned Enterprises

Passed in December 2012, the Law on Public Enterprises defines a public enterprise as “an enterprise pursuing an activity of common interest, founded by the State or Autonomous Province or a local self-government unit.” Activities of common interest included in the law are electricity generation (transmission and distribution); coal extraction and processing; exploration, extraction, processing, transport and distribution of oil and natural and liquefied gas; sale of oil and oil products; railway, postal and air traffic; telecommunications; publication of the official journal of Serbia; publication of school books; management of nuclear facilities; utilization, management, protection, and enhancement of common resources (waters, roads, mineral raw materials, forests, inland waterways, lakes, river banks and lake shores, spas, and game animal areas and protected areas); production, sale and transportation of arms and military equipment; waste management; and utility services. Activities may also include any activities of “strategic importance” for the country, as well as any activities necessary for the operation of public authorities and local self-government bodies under the law or decision of the government.

SOEs dominate many leading sectors of the economy, including **energy**, transportation, utilities, telecommunications, infrastructure, mining, and natural resources. Serbia has about 1,300 SOEs, which employ more than 280,000 people, or approximately 16 percent of the formal workforce. These enterprises can be divided into three groups: 1) about 550 enterprises that the Privatization Agency manages and is preparing for divestiture; 2) another 50 utilities and commercial enterprises not yet slated for restructuring; and 3) 700 municipal enterprises.

The Ministry of Economy has slated for restructuring 154 SOEs, most of which are highly indebted, overstaffed, lack markets for their products, and depend on government subsidies, rendering them uninviting to potential buyers. Under the December 2012 Privatization Law, Serbia set a June 30, 2014 deadline for resolving the status (via sale or bankruptcy) of companies in restructuring. After extraordinary national elections in March 2014, this deadline is unlikely to be met. An additional approximately 500 SOEs have entered bankruptcy proceedings ([www.privreda.gov.rs](http://www.privreda.gov.rs)).

Serbia encourages foreign participation in the privatization of SOEs and in public-private partnerships. Foreign investors and entities may not establish enterprises in the **defense** sector or areas legally designated as restricted zones, although they may acquire minority rights in such investments, subject to Ministry of Defense approval.

Recent Serbian governments have treated SOEs as political prizes to be divvied up among political parties in the ruling government coalition. SOE managers often are politicians or party activists appointed because of their political connections rather than their management skills or substantive expertise. In an effort to reverse the politicization of public enterprises and put them under more professional management, the National Assembly

adopted a new Law on Public Enterprises in December 2012 that requires all SOE directors to be selected through a public tender process. The law permits an SOE director to maintain political-party membership but bars him or her from exercising political-party functions while serving as director. The new law also abolishes SOE managing boards, relics of the socialist period that served primarily as a means of rewarding political party members.

The 2012 law also introduced greater transparency into the work of public companies by requiring them to publish financial reports, plans, and tenders on their websites. The law makes explicit that private entities, including companies and entrepreneurs, are entitled to equal treatment with public companies in the marketplace, unless otherwise provided by law. The Law on Public Companies represents a positive step toward removing political parties from public enterprises. Implementation remains a challenge, as SOE directors still openly maintain party ties, not all are chosen through public tenders, and some managing boards continue to exist.

## **11. Corporate Social Responsibility**

Corporate social responsibility (CSR) is a relatively new concept in Serbia. Businesses are gradually becoming more familiar with the concept of CSR, though many Serbian companies view it mainly as a public relations tool to help improve their image or reputation. Multinational companies that possess wide experience in the CSR realm are its primary and most effective practitioners. The corporate sector has become more active over the last few years in partnering with NGOs and other relevant organizations to organize events and conferences to raise awareness of CSR principles.

Several local organizations actively promote the concept of CSR among the wider Serbian business community and the public. AmCham, for example, maintains a CSR webpage with member success stories and a CSR-themed e-newsletter, available at [http://www.amcham.rs/education\\_csr.135.html](http://www.amcham.rs/education_csr.135.html). The Trag Foundation also supports the Serbian Philanthropy Forum, a networking body for donors (including numerous corporate actors) to advance philanthropic concepts in Serbia.

Since its 2007 inception, the UN Development Program's (UNDP) Global Compact initiative has organized a number of educational events intended to strengthen capacity in areas relating to CSR in Serbia. In December 2013, the UN Global Compact held its annual assembly of Serbian members in Belgrade to highlight its local activities. The most notable 2013 achievements were organization of *Global Knowledge-Local Impact* conference, as well as inclusion of the Declaration on the Fight against Corruption of the Global Compact into the Serbian government's National Strategy of Combating Corruption in August 2013 (<http://www.ungc.rs/>).

## **12. Political Violence**

Since October 2000, Serbia has been led by democratically elected governments that have publicly committed to supporting regional stability and security. The run-up to the March 2014 snap parliamentary elections did not include appreciable political tensions or threats of politically motivated violence in either the Sandzak region or south Serbia. In the Sandzak region, these tensions have occasionally incited localized violence between competing political groups. This violence is usually directed at opposing party figures and has not

targeted unrelated civilians or businesses. The newly elected government has pledged to continue successive Serbian governments' notable efforts to combat organized crime and corruption and continues to register high-profile arrests and launch new investigations.

Immediately following Kosovo's February 2008 declaration of independence from Serbia, groups twice broke away from larger demonstrations and attacked embassies of countries that had recognized Kosovo, including the U.S. Embassy in Belgrade. Since these attacks, there have been no major violent incidents in Serbia related to Kosovo. Still, extremists from Serbia regularly have been accused of fomenting and participating in politically motivated violence in northern Kosovo.

The October 2010 LGBT Pride Parade in Belgrade was marred by significant and widespread violence. The Serbian government cancelled the subsequent three Pride Parades at the last minute, ostensibly because of threats of violence by the same nationalist and extremist groups that attempted to disrupt the 2010 parade. The government has cancelled parades since then.

Organized crime in Serbia is frequently linked to sports hooliganism. There has been no serious ultra-nationalist, sports-related violence since January 2012, when hooligans attacked visiting Croatian fans in Novi Sad and Ruma, resulting in several injuries, and set fire to visitors' cars in Novi Sad during the Euro 2012 handball championships held in Serbia. A number of ultra-nationalist organizations, such as "Obraz" and "Nasi," are active in Serbia. Judging by the results of 2014 national elections, popular support for such organizations appears to have ebbed, as no right-wing party crossed the threshold to enter parliament. In 2013, these organizations continued activities targeting certain Serbian political leaders, local NGOs, and media outlets alleged to be "pro-Western." But their calls for action against their targets have not resulted in any violent incidents.

### **13. Corruption**

Corruption in Serbia is believed to be pervasive, but it is difficult to quantify. In Transparency International's 2013 Corruption Perception Index, Serbia ranked 72 of 177 countries; an improvement from the country's ranking of 86 in 2012. In July 2013, the Government of Serbia formally adopted a new Anti-Corruption Strategy that aligns with its EU accession commitments. Serbia is a signatory to the Council of Europe Civil Law Convention on Corruption and has ratified the Council's Criminal Law Convention on Corruption, the United Nations Convention Against Transnational Organized Crime, and the United Nations Convention Against Corruption. Serbia is also a member of the Group of States against Corruption (GRECO), a peer-monitoring organization that provides peer-based assessments of members' anti-corruption efforts on a continuing basis.

In an effort to combat corruption, in 2008 the National Assembly approved the creation of an Anti-Corruption Agency (ACA). The ACA began functioning in January 2010 as an independent governmental body accountable to the National Assembly. The ACA is charged with unifying current anti-corruption activities including: enforcing the National Strategy to Fight Corruption; monitoring conflicts of interest; tracking politicians' property and assets; monitoring political party financing; and facilitating international anti-corruption cooperation.

The ACA's first director, Zorana Markovic, was dismissed in November 2012 in the wake of allegations of abuse of authority arising from the purported misuse of state-owned apartments.

Amendments to the Law on the ACA are under consideration, and the Ministry of Justice has produced a draft whistleblower-protection law with USAID and DOJ assistance.

The Government of Serbia elected in summer 2012 made the fight against corruption a priority, and the new Government formed after March 2014 parliamentary elections is expected to maintain this focus. The anti-corruption campaign resulted in a series of highly-publicized arrests and indictments of prominent political figures, including former ministers and businessmen associated with a number of political parties. In December 2012, authorities arrested one of Serbia's wealthiest and most powerful businessmen and his son for alleged abuses in the privatization of a road construction and maintenance company. The trial began in November 2013 and is ongoing. This case is one of 24 allegedly fraudulent privatizations cited by the EC in its annual reports on Serbia's progress in the accession process.

Both giving and receiving a bribe is a crime in Serbia. Bribes by local companies to foreign officials are criminal acts punishable by law. Corruption offenses are handled by higher courts and prosecutors' offices. In January 2010, the Organized Crime Prosecutor's Office assumed jurisdiction over corruption-related offenses involving high-level public officials and cases involving more than USD 2.7 million in illicit proceeds.

The National Assembly amended the Criminal Code in 2012 to introduce a new corruption offense – abuse of authority in relation to public procurements – in response to the significant number of corruption cases in this area. The 2012 amendments also establish a distinction between abuse of public authority and abuse of private authority, making the latter a separate offense subject to criminal prosecution if it resulted in an unlawful benefit or significant damage. Serbian government officials indicate that drafting legislation to address corruption-related offenses by the private sector will be a priority in 2013.

Government contracts remain the most widespread currency in corrupt political spheres, and corrupt officials have commonly abused contracting procedures to drain government funds and gain personal benefit. In an attempt to remedy this situation, a new Public Procurement Law entered into force in April 2013. The law adds significant anti-corruption control mechanisms, greater transparency, and more effective oversight to public procurement procedures, in particular for small-value and non-competitive negotiated procurements. Coupled with the procurement-fraud provisions of the Criminal Code (adopted in December 2012), the new law should help expedite criminal investigation and prosecution of public procurement abuse. Awareness of the importance of public procurements in the wider anti-corruption context rose throughout 2013 as the government's anti-corruption campaign gained momentum.

The Regional Anti-Corruption Initiative, originally organized under the auspices of the Stability Pact for South Eastern Europe, maintains a website with updates about anti-corruption efforts in Serbia: <http://www.anticorruption-serbia.org/>.

#### **14. Bilateral Investment Agreements**

Serbia has concluded investment protection treaties/agreements with the following 50 entities: Albania, Algeria, Austria, Azerbaijan, Belarus, Belgium, Bosnia and Herzegovina, Bulgaria, Russia, China, Cyprus, Croatia, the Czech Republic, Denmark, Egypt, Finland, France, Germany, Ghana, Greece, Guinea, Hungary, Holland, India, Indonesia, Iran, Israel, Italy, Kazakhstan, Kuwait, Libya, Lithuania, Macedonia, Malta, Morocco, Montenegro, Nigeria, North Korea, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Switzerland, Turkey, the United Arab Emirates, the United Kingdom, Ukraine, and Zimbabwe. Following their 2013 signings, the agreements with Morocco and the United Arab Emirates are newest to the list.

The United States does not have a bilateral investment treaty or a double taxation treaty with Serbia. The United States extended duty-free privileges to qualified Serbian exports under the Generalized System of Preferences program in July 2005. However, the entire GSP program expired on July 31, 2013, and extension bills remain pending with the U.S. Congress.

In April 2008, the Serbian government and EU signed an SAA. The agreement, which came into force in June 2013, provides for free trade with EU member states, as well as harmonization of Serbia's domestic legislation with EU guidelines.

Serbia has been a Central European Free Trade Agreement (CEFTA) member since December 19, 2006. CEFTA was signed as a multilateral free-trade agreement among southeastern European countries, including: Croatia, Macedonia, Serbia, Montenegro, Bosnia-Herzegovina, Albania, Moldova and UNMIK/Kosovo. Croatia ceased to be a CEFTA member upon entry into the European Union in July 2013. CEFTA's primary objective is to facilitate and expand trade and investment among its members, whose collective population is almost 25 million.

Aside from CEFTA countries, Serbia has concluded bilateral free trade agreements with Russia, Belarus, Kazakhstan, Turkey, and the European Free Trade Association states (Norway, Switzerland, Iceland, and Liechtenstein).

As noted in Section 5 above, Serbia remains in "observer" status with the WTO. To accede, the country must amend domestic legislation, including its current blanket ban on trade and cultivation of agricultural biotechnology products. Serbia must also conclude bilateral negotiations with current WTO members.

### ***Bilateral Taxation Treaties***

Serbia has signed and implemented Bilateral Taxation Treaties with the following 54 countries: Albania, Austria, Azerbaijan, Belgium, Belarus, Bosnia and Herzegovina, Bulgaria, Canada, China, Croatia, Cyprus, Czech Republic, Denmark, Egypt, Estonia, Finland, France, Georgia, Germany, Greece, Holland, Hungary, India, Iran, Ireland, Italy, Kuwait, Latvia, Lithuania, Libya, Macedonia, Malaysia, Malta, Moldova, Montenegro, North Korea, Norway, Pakistan, Poland, Qatar, Romania, Russia, Slovakia, Slovenia, Sri Lanka, Switzerland, Sweden, Spain, Tunisia, Turkey, Ukraine, the United Arab Emirates, the United Kingdom, and Vietnam. (Source: Finance Ministry of the Republic of Serbia <http://www.mfin.gov.rs/pages/issue.php?id=7063>)

Serbia has signed Bilateral Taxation Treaties with an additional seven countries: Ghana, Guinea, Indonesia, Morocco, Palestine, Philippines, and Zimbabwe. The Serbian National

Assembly has ratified these agreements, but the legislature in the foreign state has not yet ratified them.

## **15. OPIC and Other Investment Insurance Programs**

The former Serbia and Montenegro signed a bilateral agreement with the U.S. Overseas Private Investment Corporation (OPIC) in July 2001 and became eligible for OPIC programs in November 2001 upon ratification of the agreement. Following Serbia and Montenegro's dissolution, the agreement remained in effect for Serbia.

In July 2009, OPIC severely restricted its programs for Serbia over an investment dispute involving a U.S. company that held OPIC policies on its Serbian investments. The Serbian government and the investor concluded a settlement agreement in January 2012 that led to the reinstatement of the full range of OPIC programs for Serbia the following month. Currently, OPIC, International Finance Corporation, and the European Bank for Reconstruction and Development are engaged in joint negotiations with the Serbian government related to a U.S. investor-backed, multi-million dollar wind energy project. For full information on OPIC programs, please visit <http://www.opic.gov>.

## **16. Labor**

Serbia has a total labor force of approximately 2.96 million people, of which 2.3 million are employed. The employment rate is low, at just 37.7 percent in 2013. According to government data, 656,120 are unemployed, as reflected in the 2013 unemployment rate of 20.1 percent. The leading sector for employment is the government, which according to government officials employs as many as 800,000 people.

Labor costs are relatively low in Serbia, especially compared to European averages. In February 2014, the average net take-home salary was approximately USD 527 for the month. Minimum wage for the period between January and June 2014 was approximately USD 250 per month. Investors routinely cite favorable labor costs, as well as the highly educated, multi-lingual workforce, as advantages to doing business in Serbia. Forty-nine percent of workers in Serbia have completed secondary education.

Serbia's Labor Law dates to 2005, with minor amendments in 2009 and 2013. The law is a socialist-era relic, unusually favorable to workers and their unions. Business associations, including AmCham and the Foreign Investors Council advocate significant changes in Serbia's labor laws to increase labor market-flexibility to support new employment and economic growth. Provisions under consideration for amendment relate to

- A requirement that in cases of redundancy, the current employer pay severance based on an employee's total years of employment, rather than on the years of service with that specific employer;
- Working hours, annual leave, and other conditions of employment;
- High administrative burdens for employers related to documentation;
- A 12-month limit on temporary, fixed-term employment contracts; and

- The structure of collective bargaining and its extension of agreements to non-negotiating parties.

The official mechanism for the tripartite labor dialogue is the Serbian Social and Economic Council, an independent body with representatives of the Serbian government, the Serbian Association of Employers, and select trade unions. The Council is the leading venue for discussions of significant labor and social issues, including working conditions and terms of employment; the impact of economic policies on employment, wages and prices; competition policies; privatization; workplace health and safety; and education and professional training. The Council is authorized to conclude an umbrella collective bargaining agreement at the national level covering basic employment conditions for all companies in Serbia. Additional information about the Council is available at <http://www.socijalnoekonomskisavet.rs/en/index.html>.

Officially, there are nearly 25,000 labor unions registered in the country. However, only an estimated one-third (or approximately 8,300) is active. Most of the registered unions are dormant but remain on the books because according to the law a union must submit a formal request for removal from the official register, and many fail to do so following a bankruptcy or restructuring of the associated company. Only two unions have full government-granted representativeness, meaning they can sit on the Social and Economic Council. Only one employers' association has representativeness. Business associations, especially those representing foreign companies, contend that they lack a voice in the tripartite dialogue as a result.

Serbia has ratified eight fundamental International Labor Organization conventions including Forced Labor (No. 29), Freedom of Association and Protection of the Right to Organize (No. 87), Right to Organize and Collective Bargaining (No. 98), Equal Remuneration (No. 100), Abolition of Forced Labor (No. 105), Discrimination (No. 111), Minimum Age (No. 138), Worst Forms of Child Labor (No. 182).

## **17. Foreign-Trade Zones/Free Ports**

Serbia maintains thirteen designated free-trade zones (FTZs): Apatin, Kragujevac, Krusevac, the Nis-based Free Zone South, Novi Sad, Pirot, Sabac, Smederevo, Svilajnac, Subotica, Uzice, Vranje, and Zrenjanin. FTZs, established in accordance with the 2006 Law on Free Trade Zones, are intended to attract investment by providing tax-free areas for company operations. Businesses operating in FTZs qualify for benefits that include: unlimited duty-free imports and exports; preferential customs treatment; and tax relief/value-added tax (VAT) exclusions. Companies operating within an FTZ are subject to the same laws and governmental supervision as other businesses in Serbia (except for the tax-free privileges that the FTZ offers).

Goods moving in or out of the FTZs must be reported to customs' authorities, and payments must be made in accordance with regulations on hard-currency payments. Goods being delivered from FTZs to other areas in Serbia are subject to customs' and tax duties. Earnings and revenues generated within an FTZ may be transferred freely to any country, including Serbia, without prior approvals, and are not subject to any kind of taxes, duties, or fees. The law allows up to 100-percent foreign ownership of the FTZ's managing company.

Additional information about Serbia's free-trade zones is available at <http://www.usz.gov.rs/en.html>.

## 18. Foreign Direct Investment and Foreign Portfolio Investment Statistics

**TABLE 2: Key Macroeconomic data, U.S. FDI in host country/economy**

	Host Country Statistical source*		USG or international statistical source		USG or international Source of data (Source of Data: BEA; IMF; Eurostat; UNCTAD, Other)
<b>Economic Data</b>	Year	Amount	Year	Amount	
Host Country Gross Domestic Product (GDP) (Millions U.S. Dollars)	2012	38,003	2012	37,490	<a href="http://www.worldbank.org/en/country">http://www.worldbank.org/en/country</a>
<b>Foreign Direct Investment</b>	Host Country Statistical source*		USG or international statistical source		USG or international Source of data: BEA; IMF; Eurostat; UNCTAD, Other
U.S. FDI in partner country (Millions U.S. Dollars, stock positions)	2005-2012	228	2005-2012	655	(BEA) click selections to reach. <ul style="list-style-type: none"> <li>• Bureau of Economic Analysis</li> <li>• Balance of Payments and Direct Investment Position Data</li> <li>• U.S. Direct Investment Position Abroad on a Historical-Cost Basis</li> <li>• By Country only (all countries) (Millions of Dollars)</li> </ul>
Host country's FDI in the United States (Millions U.S. Dollars, stock positions)	2005-2012	119	2005-2012	-1	(BEA) click selections to reach <ul style="list-style-type: none"> <li>• Balance of Payments and Direct Investment Position Data</li> <li>• Foreign Direct Investment Position in the United States on a Historical-Cost Basis</li> </ul>

					<ul style="list-style-type: none"> <li>By Country only (all countries) (Millions of Dollars)</li> </ul>
Total inbound stock of FDI as % host GDP ( <i>calculate</i> )	2012	0.5 %	2012	1.5 %	

GDP data source: <http://webrzs.stat.gov.rs/WebSite/Public/PageView.aspx?pKey=61>

FDI data source: [http://www.nbs.rs/internet/cirilica/80/platni\\_bilans.html](http://www.nbs.rs/internet/cirilica/80/platni_bilans.html)

**TABLE 3: Sources and Destination of FDI**

Direct Investment from/in Counterpart Economy Data					
From Top Five Sources/To Top Five Destinations (US Dollars, Millions)					
Inward Direct Investment			Outward Direct Investment		
Total Inward	22,169	100%			
Austria	3,847	17%			
Netherlands	3,772	17%			
Cyprus	3,321	15%			
Greece	1,428	6%			
Slovenia	1,173	5%			
"0" reflects amounts rounded to +/- USD 500,000.					

Note: This data differs from NBS data. According to NBS data, total inward FDI into Serbia in 2001-2012 was USD 20,274 million (compared to USD 22,169 million in the table above). The top five investors were Austria with USD 3,104 million; Norway with USD 1,704 million; Luxemburg with USD 1,611 million; Italy with USD 1,264 million; and Netherlands with USD 1,250 million. IMF data is not available for outward FDI from Serbia.

([http://www.nbs.rs/internet/cirilica/80/platni\\_bilans.html](http://www.nbs.rs/internet/cirilica/80/platni_bilans.html))

## Section 5 - Government

### Chiefs of State and Cabinet Members:

For the current list of Chief of State and Cabinet Members, please access the following - [Central Intelligence Agency online directory of Chiefs of State and Cabinet Members of Foreign Governments](#)

### Legal system:

Civil law system

### International organization participation:

BIS, BSEC, CD, CE, CEI, EAPC, EBRD, EU (candidate country), FAO, G-9, IAEA, IBRD, ICAO, ICC (national committees), ICRM, IDA, IFC, IFRC, IHO, ILO, IMF, IMO, IMSO, Interpol, IOC, IOM, IPU, ISO, ITSO, ITU, ITUC (NGOs), MIGA, MONUSCO, NAM (observer), OAS (observer), OIF (observer), OPCW, OSCE, PCA, PFP, SELEC, UN, UNCTAD, UNESCO, UNFICYP, UNHCR, UNIDO, UNIFIL, UNMIL, UNOCI, UNWTO, UPU, WCO, WHO, WIPO, WMO, WTO (observer)

## Section 6 - Tax

### Exchange control

There are no exchange controls in Serbia.

### Treaty and non-treaty withholding tax rates

	<i>Dividends</i>			<i>Interest</i>	<i>Royalties</i>
	3)	2)	1)		
	(%)	(%)	(%)	(%)	(%)
<b>Domestic rates</b>	█	█	█	█	█
Companies:	█	20		20	20
Individuals:	█	10	█	10	20
<b>Treaty rates</b>					
Albania	5	15	-	10	10
Belarus <sup>4</sup>	5	15	-	8	10
Belgium <sup>4</sup>	10	15	-	15	10
Bosnia & Herzegovina	5	10	-	10	10
Bulgaria <sup>4</sup>	5	15	-	10	10
China <sup>4</sup>	-	-	5	10	10
Croatia <sup>4</sup>	5	10	-	10	10
Cyprus <sup>4</sup>	-	-	10	10	10
Czech Republic	-	-	10	10	5 or 10
Denmark	5	15	-	0	10
Egypt	5	15	-	15	15
Estonia	5	10		10	5 or 10
Finland <sup>4</sup>	5	15	-	0	10
France <sup>4</sup>	5	15	-	0	0
Germany <sup>4</sup>	-	-	15	0	10
Greece	5	15		10	10
Hungary <sup>4</sup>	5	15	-	10	10
India	5	15	-	10	10

	Dividends			Interest	Royalties
	3)	2)	1)		
	(%)	(%)	(%)		
<b>Domestic rates</b>	■	■	■	■	■
Companies:	■	20		20	20
Individuals:	■	10	■	10	20
Ireland	5	10		10	5 or 10
Italy <sup>4</sup>	-	-	10	10	10
DPR Korea <sup>4</sup>	-	-	10	10	10
Kuwait <sup>4</sup>	5	10	-	10	10
Latvia	5	10	-	10	5 or 10
Lithuania	5	10	-	10	10
Macedonia <sup>4</sup>	5	15	-	10	10
Malaysia	-	-	10	10	10
Malta	5	10		10	5 or 10
Moldova	5	15	-	10	10
Netherlands <sup>4</sup>	5	15	-	0	10
Norway <sup>4</sup>	-	-	15	0	10
Poland <sup>4</sup>	5	15	-	10	10
Romania <sup>4</sup>	-	-	10	10	10
Russia <sup>4</sup>	5	15	-	10	10
Sri Lanka <sup>4</sup>	-	-	12.5	10	10
Slovenia	5	10	-	10	5 or 10
Slovak Republic	5	15		10	10
Spain	5	10		10	5 or 10
Sweden <sup>4</sup>	5	15	-	0	0
Switzerland	5	15	-	10	0 or 10
Turkey	5	15	-	10	10
Ukraine <sup>4</sup>	5	10	-	10	10
United Kingdom <sup>4</sup>	5	15	-	10	10

1. Standard tax rate.

2. Rates applicable - at least 25% of share capital or voting power, as applicable, is held by the recipient in the payer.

3. Rates applicable - less than 25% of share capital or voting power, as applicable, is held by the recipient in the payer.
4. Based on the treaty concluded by the former Socialist Federal Republic of Yugoslavia or the Federal Republic of Yugoslavia

## Methodology and Sources

### Section 1 - General Background Report and Map

(Source: [CIA World Factbook](#))

### Section 2 - Anti – Money Laundering / Terrorist Financing

	Lower Risk	Medium Risk	Higher Risk
<a href="#">FATF List of Countries identified with strategic AML deficiencies</a>	Not Listed	AML Deficient but Committed	High Risk
<a href="#">Compliance with FATF 40 + 9 recommendations</a>	>69% Compliant or Fully Compliant	35 – 69% Compliant or Fully Compliant	<35% Compliant or Fully Compliant
<a href="#">US Dept of State Money Laundering assessment (INCSR)</a>	Monitored	Concern	Primary Concern
<a href="#">INCSR - Weakness in Government Legislation</a>	<2	2-4	5-20
<a href="#">US Sec of State supporter of / Safe Haven for International Terrorism</a>	No	Safe Haven for Terrorism	State Supporter of Terrorism
<a href="#">EU White list equivalent jurisdictions</a>	Yes		No
<a href="#">International Sanctions UN Sanctions / US Sanctions / EU Sanctions</a>	None	Arab League / Other	UN , EU or US
<a href="#">Corruption Index (Transparency International) Control of corruption (WGI) Global Advice Network</a>	>69%	35 – 69%	<35%
<a href="#">World government Indicators (Average)</a>	>69%	35 – 69%	<35%
<a href="#">Failed States Index (Average)</a>	>69%	35 – 69%	<35%
<a href="#">Offshore Finance Centre</a>	No		Yes

### **Section 3 - Economy**

General Information on the current economic climate in the country and information on imports, exports, main industries and trading partners.

(Source: [CIA World Factbook](#))

### **Section 4 - Foreign Investment**

Information on the openness of foreign investment into the country and the foreign investment markets.

(Source: [US State Department](#))

### **Section 5 - Government**

Names of Government Ministers and general information on political matters.

(Source: [CIA World Factbook](#) / <https://www.cia.gov/library/publications/world-leaders-1/index.html>)

### **Section 6 - Tax**

Information on Tax Information Exchange Agreements entered into, Double Tax Agreements and Exchange Controls.

(Sources: [OECD Global Forum on Transparency and Exchange of Information for Tax Purposes](#) [PKF International](#))

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